

**PROMOTING SMALL AND MICRO
ENTERPRISE IN HAITI**

HEARING
BEFORE THE
SUBCOMMITTEE ON
INTERNATIONAL MONETARY
POLICY AND TRADE
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U.S. HOUSE OF REPRESENTATIVES
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PROMOTING SMALL AND MICRO ENTERPRISE IN HAITI

Wednesday, April 28, 2010

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL
MONETARY POLICY AND TRADE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:12 p.m., in room 2128, Rayburn House Office Building, Hon. Gregory Meeks [chairman of the subcommittee] presiding.

Members present: Representatives Meeks, Waters, Watt, and Driehaus.

Chairman MEEKS. This hearing of the Subcommittee on International Monetary Policy and Trade will come to order. Without objection, all members' statements will be made a part of the record. And I will start by making a brief opening statement.

I want to first start by apologizing for starting the hearing a few minutes late. I am sitting on a conference committee on the Iranian Sanctions Act, and that's all the way over on the Senate side. And so I have been intricately involved there. That is the reason for us being a little tardy today.

But I would like to thank—and I know he may be here shortly—Representative Miller, the ranking member of this subcommittee, for his help in planning this hearing, and to express my gratitude for our ability to work in a truly bipartisan manner in seeking solutions to the critical situation in Haiti.

This hearing is the third in a series of hearings on the situation in Haiti. And in considering the situation in Haiti, we have tried to consider the principal economic layers of the crisis. We started with the sovereign issues of Haiti's unsustainable foreign debts, and I was thrilled to see such bipartisan support for passage of the Haiti Debt Relief bill in both the House and the Senate, which was signed into law on Monday by President Barack Obama.

The last hearing we held, on March 16th, considered the macro-economic plan for Haiti's private sector. Specifically, we discussed the importance of including a specific plan and strategy to promote Haiti's competitiveness in key sectors, and the critical importance of incorporating a Haitian-led private sector recovery plan as a central component of the global initiative to assist Haiti following the devastating earthquake.

Today's hearing will focus on small and micro enterprises. The vast majority of Haitians derive their income from informal micro enterprises. As is the case in most developing countries, much of

private enterprise is informal, unstructured, agricultural in nature, and provides little long-term security on which to build a prosperous, stable future.

Indeed, when we hear, as our witnesses will speak to, that no more than 10 percent of the private sector is formalized in Haiti, and that 10 percent or less of private enterprises contribute to the nation's tax base, and that nearly 35 percent of the Haitian government's budget is driven by the tax base, with the rest financed from aid and donor budgets, it's hard to see a credible role for the government or a path to locally-driven economic recovery.

When we think of the entrepreneurship here in America, we take certain concepts for granted, including access to capital, proper regulation and oversight, delivery of government services, insurance, banking services, access to markets, enforcement of contract law, a deep and qualified talent pool, etc. But in Haiti, each of these can be a major barrier to starting or growing a business.

What's more, as our witnesses spoke to at the last hearing, promoting a culture of entrepreneurship in Haiti will also depend on changing perceptions of the social role of the entrepreneurs and companies and business leaders.

I look forward to the testimony of our witnesses, and hope to take the findings from these hearings to work with my colleague, Representative Miller, and others on this committee in a bipartisan manner to promote Haiti's private sector and to help drive a vibrant economic recovery owned and driven by the hard-working, ambitious, and resilient people of Haiti.

And I will now go to Mr. Watt.

Mr. WATT. Mr. Chairman, I came to hear the witnesses, and I think I will pass on an opening statement. I appreciate the chairman calling the hearing; these are very important witnesses. Thank you.

Chairman MEEKS. We will start with Simon Winter, the senior vice president of development for TechnoServe Inc., who has a knowledge of management strategy, leadership, strategy planning, program development, and leading fund-raising and partnerships. There are various other things that I could say about him, but I want to get right to the testimony so we can get as much as we can in, before we have votes.

Mr. Winter?

**STATEMENT OF SIMON WINTER, SENIOR VICE PRESIDENT,
DEVELOPMENT, TECHNOSERVE INC.**

Mr. WINTER. Mr. Chairman, members of the subcommittee, thank you for the opportunity to discuss creating economic recovery in Haiti through private enterprise. In my written testimony, I show how the promotion of small growing businesses and a culture of entrepreneurship can make a vital contribution to putting Haiti on the path to recovery and growth.

Haiti's history lacks a strong and vibrant small business sector. It has been dominated by a handful of multi-national businesses and a small local elite. Without direct intervention to promote economic plurality at the grass roots of the economy, development efforts will fail to alter the structure of the business sector, and restrain the potential for new, broader sources of growth to emerge.

Haiti does not have to wait for the macro policy and infrastructure environment to improve before seeing benefits from such grassroots efforts. TechnoServe's current work with USAID in Haiti started in July of 2009. We identify promising local businesses, analyze their financial or business needs, facilitate negotiations with financial institutions and business service providers, and monitor the results.

We believe that the approaches we have used elsewhere are applicable in Haiti. Our recommendations are to include two key types of interrelated programs in any new reconstruction recovery and development programming for Haiti.

First, Haiti needs a much-strengthened culture of entrepreneurship, which can be enhanced through the types of entrepreneurship programs that TechnoServe has implemented successfully across many countries.

Second, Haiti will benefit from strengthening programs, also along the lines of those implemented elsewhere with positive socio-economic impact by TechnoServe. In my written testimony, I provide examples from our work in Tanzania, Uganda, and Mozambique: countries with similar ratings to Haiti on the World Bank's Doing Business Project. They all demonstrate that, in such countries, entrepreneurial people can be identified, who can be trained and mentored to establish small growing businesses that, over time, can stand on their own feet.

The Tanzania business plan competition trained 110 entrepreneurs over 6 months. It exposed them to experienced local business leaders, local role model entrepreneurs, venture capitalists, bankers, private investors, university professors, technical experts, and other professionals from Tanzania's private sector.

Local financiers shift to considering small and medium enterprises as a viable customer base. Half of those entrepreneurs trained are now using business support vouchers provided and accessing expansion capital. And the entrepreneurs form an alumni network for mutual support, and become the kernel of a shift in the local entrepreneurial culture.

Recently, research of 590 entrepreneurs from previous Central American competitions demonstrates that participants in the training phases dramatically outperformed their peers who did not participate. We are busy with such a competition in Haiti. We received 99 completed applications by February, of which 50 applications were submitted after the January earthquake.

To ensure that Haiti's high-potential sectors receive the support and attention they need to become the engines of economic recovery and growth, it will not be enough to stimulate entrepreneurship and hope that some good entrepreneurs arise in each sector.

Comprehensive sectoral programs are also required. The written paper includes references to our work in cashew, poultry, and savory bananas in Africa.

In Mozambique, a country ranked 172 out of 182 in the UNDP's 2009 human development index, we ceased 7 years of active support for the cashew processing sector 2008 by when 40 percent of nuts produced were processed locally, from zero 7 years earlier. Five thousand jobs have been created, about half held by women. In January 2009, we found that, since 2001, the aggregate positive

impact of the renewed cashew industry had been 11.5 million to the entrepreneurs, and over 100,000 small-scale farmers.

Based on the establishment of a similar program to boost the mango and passion fruit sectors in East Africa in 2009, Coca Cola has selected TechnoServe to be their implementing partner for the recently announced Haiti Hope project. This 5-year project seeks to double the income of 25,000 Haitian mango farmers, and establish local institutions and infrastructure to support the ongoing growth and competitiveness of this sector, including value-added enterprises.

We believe that the Haiti Hope project can become a role model for sectoral revitalization that can contribute to the long-term development of Haiti. I believe that, out of the recent crisis, there is a moment of discontinuity that will allow the U.S. Government and other donors and philanthropists, as well as private sector investors, both local and international, to create a new beginning for Haiti.

Thank you, Mr. Chairman, for the opportunity to speak to you. I would be pleased to follow up with you and committee members, or any of your staff.

[The prepared statement of Mr. Winter can be found on page 177 of the appendix.]

Chairman MEEKS. Thank you, and thank you for finishing right on time. Our next witness is Mr. Mathias Pierre, who is the founder and CEO of GaMa Consulting. Mr. Pierre is a very successful Haitian entrepreneur, who wants to make his all-too rare success a far more common story in Haiti.

He is educated, an electrical engineer, and he founded his company—and it's an IT consulting firm that's based in Haiti—in 1998. Mr. Pierre?

**STATEMENT OF MATHIAS PIERRE, PRESIDENT, GAMA
CONSULTING S.A.**

Mr. PIERRE. Thank you, Mr. Chairman. Mr. Chairman and honorable members of the House subcommittee, thanks for providing me the opportunity to talk to you about my views on the aid and construction effort and the critical role that MSMEs should play in the process.

I am an entrepreneur who started with nothing. When I think of my past, and the current involvement in my country's private sector, I believe that not only it is possible to change one's future, but most importantly, I have learned that change can be learned. We are not conditioned to change by our own genes. It is, instead, necessary to define new ways to do things. And I believe, as a cornerstone for rebuilding Haiti, we must instill change in the minds of Haitian youth.

Though I do not come from a wealthy family, I was capable of establishing a model of financial performance in applying certain principles prescribed in my book, "The Power of a Dream." Today, I am the president and general manager of GaMa, beneficiary of the model award over 500 competing companies in the Caribbean.

In North America, I would be considered a very active businessman. However, in Haiti, this type of participation is mostly viewed

as an exception to the rule. So, I would consider myself a relatively rare species of businessman.

I am convinced that what I have accomplished is possibly only because I actually did it. I believe that I can share my proven know-how by working to the foundation, Working Space for the Success of Being Haitian. With more than 500 university students, my goal, I would like to see the students serve as models, inspiring symbols to those who decide to get involved in sustainable development.

Haiti is more emotional than rational. Haiti is a country where emotion and perception plays an important role in the ways an individual acts, his attitude and behavior. Therefore, this is why those who succeed are perceived as drivers of growth and seem to, therefore, be destined to be depositories for wealth. Those who are deprived of means are perceived and consider themselves of being incapable of participating in the growth process.

Life is considered as a hostile heritage. One must make an utmost effort to survive, making it difficult to overcome the realities of one's origin and social status. Compared to the United States, where poor become rich in one generation, a typical Haitian destiny is determined by his parents' status. I believe this is driven by an environment of scarce resources and an economic model which is not based on growth and wealth creation. This leads to a predatory distribution of wealth that accentuates the divide between rich and poor.

Ninety percent of Haiti's economy depends on the informal sector, because 90 percent of the private sector's jobs come from the informal sector.

January 12th, consequences and opportunities—it is in this context that January 12th occurred, completely changing our business environment. Haiti's most important symbols have been destroyed, and a country has been deeply hurt to its core. It has adversely impacted most small entrepreneurs and small merchants in the informal sector: no insurance; destruction of physical assets and inventory; lost revenues; and no access to credit and public facilitation. The earthquake aftermath offers an opportunity for a new beginning—most importantly, to put in place new elements to remodelize the economy.

Intelligent and efficient injection of capital—according to the USAID survey, \$2.7 billion is needed for the economy to recover the MSME sector after the \$2 billion lost in 35 seconds. Tangible activities must be undertaken that address the financial needs of the productive sector.

I believe that this could be achieved by adopting the following financial and non-financial measures: provide capital fund in three current underserved segments in the private sector; establish an MSMEs support and assistance fund; establish a growth capital for small and medium businesses in the range of \$100,000 and \$1 million size; establish a fund for the development of entrepreneurship; make available to young entrepreneurs start-up funds for a business; organize contests at the level of university and the technical training school to obtain financial, fiscal, and legal assistance; foster an entrepreneurial—

Chairman MEEKS. Can I ask you to start wrapping up? We're just trying to make sure we get as many people to testify before votes start. So if you would, wrap it up. Your statement will be in the record. So, please, just summarize, and we will take—

Mr. PIERRE. Basically, it's to provide management skills to those kids. And, at the end, I think by doing so, we can help Haiti and the country and the young people, first, to help them to get started and think differently about the private sector, because they are a part of the private sector.

Mr. Chairman and honorable Members of Congress, in my closing, I would like to once again thank you for giving me the opportunity to express my views on the role of the MSME sector in the rebuilding effort for a more prosperous and wealthy Haiti. Thank you.

[The prepared statement of Mr. Pierre can be found on page 44 of the appendix.]

Chairman MEEKS. Thank you. And I am going to go right—without a real introduction; so I apologize, Mr. Barrau—to you. You are the managing director of the Alternative Insurance Company, and a promoter of innovative tools for economic growth in developing countries.

I want to go directly to you to get your testimony. Thank you.

**STATEMENT OF OLIVIER BARRAU, MANAGING DIRECTOR,
ALTERNATIVE INSURANCE COMPANY**

Mr. BARRAU. Thank you, Mr. Chairman, and Honorable Congressmen. Thank you for providing me the opportunity to express my views on the critical role that micro, small, and medium enterprises, MSMEs, and especially insurance, should play in the rebuilding process of Haiti.

Following the biggest catastrophe that Haiti, and maybe the world, has known, besides the suffering and loss of lives, I think we have several opportunities in front of us, such as what ingredients were missing in the previous attempts to get Haiti on a durable path of economic and social development.

I would like to stress that the important missing link in the prosperity chain is risk management. This is well illustrated in a famous quote by Sir Winston Churchill, where he says, "If it was possible for me, I would write the word 'insurance' in each home and on each man's forehead, since I am so convinced that insurance can, at a moderate price, liberate families from irreparable catastrophes."

Observers argue that there is a direct correlation between the number of deaths following a catastrophe and insurance penetration rate in a society. A vivid example can be seen this year. Haiti faced a 7.2 magnitude earthquake with over 250,000 deaths. And Chile, a much more developed country—and maybe the richest nation in South America—faced an 8.8 magnitude earthquake, which is 500 times stronger, with less than 1,000 deaths, though twice as many buildings were damaged.

Haiti's penetration rate is close to nil, and there is more information about that in my written remarks. Answering how Haiti can increase its insurance penetration rate will help answer some of the questions above—or at least reduce the reliance on inter-

national aid. The only way to increase the penetration rate in Haiti is through the MSME sector, which, according to a USAID study, are the ones that suffered 65 percent of the losses on January 12th. They were not insured.

Given the investments required to rebuild Haiti, we need to facilitate the role insurance has to play in this economy. By making the MSME sector financially stronger, the social fabric of Haiti will be transformed and benefit all. The government will have a bigger fiscal plate and a vibrant economy. MSMEs and the private sector will have bigger buying power and better social services and protection from the international community, reduced dependency on foreign aid, and a more stable Caribbean region.

It is important to support the traditional banking system also in difficulty, but it's even more important to support other financial actors, such as development banks and micro-finance institutions. Traditional banking activity will not fulfill our hope that money will trickle down within the pyramid, and the bottom will benefit. Today, entrepreneurs who may have great ideas and do not qualify for traditional banking, will never be able to emerge.

Our mea culpa should be to accept that we did not do a good job at protecting the wealth that we Haitians were creating. Challenge has to start from the top. The leadership of Haiti needs to lead the way by protecting itself.

Mr. Chairman, Honorable Congressmen, the message should be clear from the international community that its effort to rebuild Haiti needs to be protected this time. The Haitian government has to understand that risk management is important if Haiti is to have a sustainable society and economy. Most, if not all, of the government's assets were not insured. More information also is included regarding this in my remarks.

Low levels of social security and insurance access is the common denominator that is found in all underdeveloped countries. Haiti is no different. Faced with such a situation, populations are forced to turn to unconventional risk management methods that are more costly and always fall short of the expected results.

In my written remarks, I talk a lot about how poverty can be considered as a transitory state that is linked directly to risk management. With private/public donor partnerships, innovative ideas and mechanisms can be put in place so that insurance and social security can be complementary and more inclusive, as explained in my remarks.

How is the insurance industry following the earthquake, you may ask. For the first time in its history, the insurance industry is in financial difficulty. The reinsurance cover bought by local companies is not sufficient to cover the losses. There is a gap in the system of approximately \$40 million. It is crucial and very much time sensitive that insurers who qualify find help to face their immediate obligations. Without insurance coverage, credit to MSMEs and entrepreneurs will continue to be prohibitive.

There is also an opportunity today to properly regulate and supervise the insurance industry, so that it can meet the region, in terms of prudential norms and transparency, but also set the foundations for its growth.

Mr. Chairman, Honorable Congressmen, in closing, I thank you very much for giving me the opportunity to express my views on the role of the MSME sector, and especially the role the insurance industry should play in building a more prosperous and wealthy Haiti.

I am available for your questions, if you have. Thank you.

[The prepared statement of Mr. Barrau can be found on page 34 of the appendix.]

Chairman MEEKS. Thank you. Let me just briefly explain, just so—I know you all don't know what's going on, but votes have been called, and that's what members are doing. They are running out and making votes, and I am trying to make some determinations here, as to whether I adjourn, whether I miss a couple of votes and make sure I get to the both of the two witnesses that we have left and then get to the questions. And there are some members who did want to come here, and they said they want to come after votes, so we're trying to, you know, ascertain exactly what we're doing.

In the meanwhile, I am going to push forward, I think, and go to Mr. David Roodman, who is the research fellow for the Center for Global Development.

And I again apologize for not reading your full biography, but I think it's more important to hear what you have to say.

**STATEMENT OF DAVID ROODMAN, RESEARCH FELLOW,
CENTER FOR GLOBAL DEVELOPMENT**

Mr. ROODMAN. Thank you, Chairman Meeks. I am going to skip the first half of my written testimony, which offers some general principles for how to support Haiti's small and micro enterprises, and just focus on micro finance and what to expect and what not to expect of micro finance in Haiti.

And to convey my thinking, which has come out of both a book and a blog that I am writing on micro finance, I would like to start with a story.

A couple of years ago, I spent a good deal of time scrutinizing what was then the leading study that told us that micro credit reduces poverty, especially when it was given to women. And to decide whether I believed this crucial study, I decided to replicate it. That means running all the original math on the original data. And the math and the computer programming and this were really very complex, and I found myself getting into the weeds and crunching a lot of numbers. I would eventually conclude that I didn't believe the study, which is not to say that I think micro credit doesn't help, but that we couldn't answer the question with this data.

Now, while I was doing that, I had the privilege of visiting several micro finance programs, including a couple in Egypt, which were supported by USAID. And I will never forget the scene that I saw in one of the bank branches in a very poor neighborhood of Cairo. It was loan disbursement day, and there were hundreds of women who had filled this lobby. And then the crowd sort of spilled into the hallway and down the stairs and onto the streets, and they had their kids, and they were clearly going to have to wait hours. And they were all there to get their loans, and it seemed like a very excited group. I got to speak to them briefly through a translator.

I thought about the irony of this situation. Should I tell these women that, “I have been crunching numbers on my laptop back in my hotel room, and actually, we are not quite so sure if you should take those loans?” I mean, that would be absurd. There is no way that I could tell them how to live their lives, lives I don’t really understand.

So, I reflected on this sort of conflict between the uncertainty of the research on the impacts of micro finance and the vitality of the scene that I saw, and I decided that I had to take both seriously. And the realizations I came to by doing that, I think, are essential for developing realistic expectations of what micro finance can do in Haiti, and also for supporting micro finance wisely.

So, from the research side, I am convinced that we have, essentially, no solid evidence that micro credit—which is the dominant form of micro finance—reduces poverty, on average. That’s a strong statement. Let me give you a couple of reasons why I believe that.

First of all, while there are lots of success stories about micro finance—you know them well—there are also failure stories: women who borrow and get in over their heads with high-interest debt, women who can’t pay back, so their borrowing peers in these credit groups come and take their pots and pans or their tin roofs to sell in order to repay the loans.

The other reason beside those stories that I think we need to bring some skepticism about the impacts of micro finance is it’s really hard to tell whether people are better off because they’re borrowing, or they’re borrowing because they’re better off. And I could say a lot more about that, but I won’t. And so it’s a very difficult statistical problem.

The most credible way to pin down cause and effect, to find out whether micro finance is really helping, is to randomize, the way it is done with good drug trials to see whether drugs are safe for people. If people who are randomly offered micro finance do better than those who don’t—are not randomly offered, that’s pretty powerful evidence that it’s helping. And just last year, we got the first randomized studies of micro finance—or I should say micro credit, in particular.

And the two that we have of micro credit did find that micro credit stimulates micro enterprise. More people start businesses, and that’s a good thing. But at least in the 15 to 18 months that were studied, that did not translate into reduced poverty, in terms of income or spending of households, number of children in school, and so on. So, that’s a fairly muted verdict, compared to what people usually hear about micro finance.

But that said, micro finance has scored some impressive achievements, I think, and I want to—and I think our job is to help micro finance play to its strengths. And I would list two.

The first is the ability of micro finance to build dynamic and large institutions. The Grameen Bank, which won the Nobel Prize, has thousands of employees. It serves millions of people. It’s non-profit, but it acts a lot like a business. It competes, it innovates, it’s improving services for very poor people. And it’s hard to find such aid-fostered business-like institutions in other areas of aid, outside of finance. There is no Grameen Bank vaccination.

The other strength I see in micro finance is the ability it has to give poor people—really, millions of poor people—more control over their financial circumstances. If you live on \$2 a day, you don't actually live on \$2 a day. You live on \$2 one day, \$.50 the next, \$2 the next. That's because you're selling vegetables at the corner, or selling the rickshaw rides. Your income is unpredictable and volatile. And when you live that way, you actually need financial services more than we do. You need ways to put aside money on good days and good seasons, and draw it down in bad. And all the kinds of micro finance—micro credit, micro savings, micro insurance, even transfers of money—can help people do that in different ways.

But in this light, micro credit starts to look a little bit dangerous, because it can actually reduce people's control over their financial circumstances in some cases. Think about that word, "bond." It's easy to imagine—and we know it happens—that sometimes people get in trouble with micro credit. It's hard to imagine people getting in trouble by saving too much.

Now, Haiti has a vibrant micro finance sector that, in many ways, embodies the strengths that I have just talked about. There appear to be competitive, creative, growing institutions—

Chairman MEEKS. I need you to summarize.

Mr. ROODMAN. Yes, I'm close. There is more savings, they do more savings than borrowing. So I would endorse efforts to bolster Haiti's micro finance sector in this difficult time, and I detail how to do that a little bit more in the testimony.

That said, it's important to keep in mind that micro finance currently in Haiti reaches about a quarter of a million people, which is roughly about 2.5 percent of the population. That's a great achievement, no doubt, but it's also something that ought to be kept in perspective. If one of our goals in helping recovery is getting cash to Haitians so that they can help themselves, so that they can buy stuff in the local economy and support small businesses, then I think we need to look at other potential avenues that may exploit networks that have far greater reach, including the mobile phone networks and the remittance networks.

If we could set up a mobile money system, as now has been set up in Kenya, that would allow people to save through their phones, then with a stroke of the pen, a donor like the U.S. Government could increase the bank balances—essentially, the cash in people's pockets, of every Haitian with a phone number, with the stroke of the pen. Thank you.

[The prepared statement of Mr. Roodman can be found on page 59 of the appendix.]

Chairman MEEKS. Thank you.

Last and far from least, we have Mr. John Sanbrailo, who is the executive director of the Pan American Development Foundation.

**STATEMENT OF JOHN SANBRAILO, EXECUTIVE DIRECTOR,
PAN AMERICAN DEVELOPMENT FOUNDATION**

Mr. SANBRAILO. Chairman Meeks, thank you very much for the invitation today. I am honored to be here for the Pan American Development Foundation. Before beginning, I would particularly like to recognize your leadership, and the numbers of times that you have visited our projects in Colombia. Thank you very much. It has

been very motivating for our staff and for all of those that we work with there.

We are here today to talk about Haiti. Again, I congratulate you for taking the initiative here, and especially in having Haitians, Haitian business leaders as witnesses, which is so critical. Our foundation has been operating in Haiti for 30 years. We have been one of the leading promoters of small and medium-sized enterprises, especially in agriculture and community-based enterprises.

I have also been involved in the design and development of these programs for 40 years as a former director of USAID in El Salvador, in Honduras, in Ecuador, and in Peru.

I would like to just briefly summarize key points that, from my experience throughout the region, as well as the Pan American Development Foundation's experience in Haiti, are critical for the success of small and micro enterprises that we believe are absolutely critical in the reconstruction and recovery of the Haitian economy in promoting sustainable development. I have seen this throughout my career—I come at this a practitioner—from a number of different country perspectives.

The first point I would like to make, and further elaborate in our written testimony, is we need to recognize the overriding importance of political leadership and stability. And we outline in our testimony how absolutely essential this is for the development of any enterprises, and micro and small enterprises are certainly part of that.

The second point I would like to make, and that often gets lost in a discussion of small and micro enterprises, is encouraging sound macro economic and regulatory reforms. Often, there is a—what I refer to as tunnel vision in looking at micro and small enterprises. They are not seen in the broader macros and regulatory environment. And, from my experience throughout the region, it has been those reforms that have made the difference between the successes and the failures. Throughout my career, I have seen successes and failures throughout Latin America and the Caribbean. But those successes have always been within environments that encourage and nurture small business development.

We have attached to our written testimony a study by the IMF that compares the Dominican Republic and Haiti, and highlights the critical importance that policy decisions have made in explaining the divergence of overall economic growth.

I would also like to mention the importance of promoting ownership and titling, the important work that 10 years ago the U.S. Agency for International Development did in Haiti, in supporting property ownership. That work should be restarted again.

The fourth point is to expand successful development models for small business and micro enterprises. We are supporting one of those in our program that is called Community-Driven Development. It's a Haitian government program, and we helped the Haitian government implement that program.

The fifth point is to recognize—that has been mentioned here a number of times already—the importance of remittances and engagement. More small business development will be done through remittances. More homes will be repaired through remittances and through international aid. And trying to come up with more inno-

vative, creative ways of leveraging those remittances is absolutely critical.

Finally, I would say engage the private sector, as you are clearly doing here. Involve the private sector. That is what our foundation, the Pan American Development Foundation, is all about throughout the region, and especially in Haiti.

I would also just conclude that there are successes throughout the region. There are models from those successes. Not everything in Haiti or throughout the region has been a failure. I just point to the Dominican Republic, to El Salvador, to your leadership in Colombia. And it's those models that could help Haiti quickly recover from this terrible disaster. And there are important ongoing Haitian models that can be rapidly scaled up and developed.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Sanbrailo can be found on page 65 of the appendix.]

Chairman MEEKS. Thank you. What we will do now is we will have the subcommittee go into recess. There are several members who have indicated they would like to come back after votes, if you have the time, because they would like to ask you some questions. So we will recess now, and come back right after the last vote. Thank you.

[recess]

Ms. WATERS. [presiding] I would like to thank you very much for your patience. The subcommittee has been in recess while we took some votes. The chairman is tied up for a while, but I think that he will be back. Meanwhile, we will resume this particular hearing.

And, as I understand it, everyone had an opportunity to make their statements. At this point in time, those members who are present normally raise questions about the testimony and the subject matter.

I understand that much of this hearing focused on the potential of micro credit to promote the development of small businesses and micro enterprises. Dr. David Roodman's testimony, as I understand it, reminded us that micro credit has its limits, as well as its benefits. One of Mr. Roodman's suggestions was as follows: "Give USAID and other agencies the flexibility to analyze and adapt to the strengths and weaknesses of the Haitian economy, procuring locally when possible, eliminating bottlenecks where possible, delivering in kind where necessary."

And I think that the work that we have done, and the time that we have spent in Haiti and with USAID, that we agree with this suggestion. A small businessperson will accomplish nothing if that person borrows money to set up a business and then cannot repay the loan because he cannot sell his products or services.

So, I am going to try and share with you some comments and questions relative to what I have discovered. On my last visit in Haiti, I asked the contract officer to come to a meeting that I had organized with local Haitians. I had about 130 persons there who—some were in business, others were professionals, others wanted to get into business.

The first thing that I encountered was they had no entry point. The persons who attended the meetings could not get into the cluster meetings. And I don't know if you're familiar with the cluster

meetings that go on in Haiti, and all of the subject areas, whether it's health or education, what have you. They are held behind secured gates and walls with some of the local NGOs—mostly local NGOs—and others who provide services and talk about the future of Haiti. So, they didn't have an entry point.

I also discovered that the Inter-American Development Bank was in Port-au-Prince. And when I went over who had been invited, it appeared that they had gotten a list from the government, but the list included some of the same familiar names of business persons in Haiti. I gave them a list and they did include 10 additional people that we referred. And then the Inter-American Bank went over to the DR, Dominican Republic, where they had another meeting, and because we had not been—we were not aware of that, we did not submit additional names, and it kind of was the same people again.

So, we're talking about Haitians doing business and micro credit. We are talking about how to do that. When we invited the USAID person to come to talk with the business persons, the would-be business persons, they brought with them the criteria for basically unsolicited proposals, not a lot about requests for—proposals that were going out that needed responses.

But the first thing they said was they—anyone wishing to do business with USAID needed to have 3 years of receipts from whatever businesses they had been involved in. Some of us thought that was laughable, for a number of reasons. The Government of Haiti had lost most of its records. They were lying in the streets around the palace and the other government businesses. They didn't even have their records. And many of the people in the room had lost their homes.

And, number two, many of the people there, they were bilingual, per se, but they were much more fluent in Creole. And all of the information from USAID was in English. And then, the other kinds of requirements were just not culturally sensitive.

And so, that's one of the problems about local Haitians, I believe, attempting to do business. And I saw nothing that gave credit to businesses, bigger businesses, coming into Haiti if they would joint venture with local Haitians. And I asked about whether or not there was a policy relative to that, and there was not.

So, now I suppose, here in this hearing, not only are we talking about small businesses and their ability to do business, we are talking about financing and credit. And I would like to ask if any of you testified to or you know of how local Haitians wanting to do business and needing to have access to capital, how is that accessed, either through the Haitian economy or otherwise? Where is it—where do they get the money?

[No response.]

Ms. WATERS. Anyone? Yes?

Mr. ROODMAN. Representative Waters, you have raised several issues there, and I think you have made some excellent points.

I think I might focus on this theme of “do no harm” that I mentioned in my written testimony. I think it's easy to underestimate the productive power of the Haitian economy. Mr. Pierre here was telling me about how there are various, I think, private groups who have set up IT consulting in Haiti, and provided free Internet serv-

ice, and this sort of thing. Meanwhile, he is running a business, and there are other businesses that can do the same thing.

And so, when free services like that are brought in—or when rice is brought in, that can also be produced locally—

Ms. WATERS. I'm sorry, but slow down just a little bit. When what is brought in?

Mr. ROODMAN. Rice.

Ms. WATERS. Okay. Let's talk about rice.

Mr. ROODMAN. The idea—talk about—when outsiders bring in goods or services that can be produced locally—

Ms. WATERS. Yes.

Mr. ROODMAN. —and give them away for free, that actually damages the Haitian economy.

Ms. WATERS. Absolutely.

Mr. ROODMAN. And so, the problem that I think you're pointing to is that the way that the USAID and other public agencies sort of constitutionally work, it's hard for them to procure locally, partly because of concerns about accountability and proper use of funds.

And so, I see AID and the other agencies as sort of like bulldozers, you know. The Haitian economy is like this delicate ecosystem, and it has been damaged, but it's still alive. And the bulldozers come in, and they manage to build something, but they also do a lot of damage along the way.

And Congress isn't driving the bulldozers, but it did design them, to a large extent. And so the question is, can they be redesigned so maybe they're not bulldozers any more? I don't know what they are—they would be bicycles, or something else that can be operated with much more finesse.

In my written testimony, I refer to some really interesting work that is already being done by USAID, what they call market mapping, which looks at what the local economy is capable of producing now, what are our bottlenecks, such as lack of warehousing, which, if released, could improve the ability of the economy to supply even more.

And if you start to think about this, it leads to a different way of thinking, where outsiders need to first figure out what the economy, Haitian economy, can produce, or could produce with a little help, and try to fill in the gaps. But make sure not to step on local producers.

And the nice thing—I don't pretend that this is an easy thing to fix in how USAID operates, but it's something that would not require a large budgetary expenditure, so it's attractive in that way.

Ms. WATERS. Thank you very much. Some of us believe, and I believe, that USAID needs to come up with a whole new way of doing business in Haiti that would take into consideration all of what you said, and more.

But the problem for Members of Congress is this: We are public policymakers, but we don't normally sit down and write the details of an operation. So, what we really do need is we need those who understand this to come up with some suggestions for us about what USAID should be doing, in order to credibly do business in Haiti with Haitians participating.

For example, someone said to me recently that they had problems with Haitians building—for example, if you have to build a

school—because they wouldn't keep up with the receipts, and they could only be reimbursed if they kept up with the receipts.

Well, I think that's a poor excuse for not contracting with Haitians, because there may be some technical assistance that you can provide to talk about, "This is the way we do business, and here is how I think we can make it easier for you. Let me show you how we have learned that some business people keep their receipts," and help to set up a system by which people—I don't care if they drop it in a bucket every time they pay for something, or they assign a person to follow up with every expenditure, or what have you. But it seems to me those are problems that could be solved.

So, what we need is we need ideas and suggestions about how to do business in ways that would keep USAID and others from having excuses about why they can't do business with local Haitians.

The other thing is this—there are several other things. It's not just USAID. Politics is a part of what goes on in that country, just like it is in this country. And there are people who are identified and selected, because the government is asked by USAID and other American agencies, "Who do you identify to do business with?" And so, that has to be dealt with.

There is a governance problem that we can—because we're friends, and everybody wants to work with the sovereign countries in ways that are respectful, I think we can talk about that. We have to have some leadership to do that, and we have to think about how to get that done so that we're not simply doing business with the same old people, or just some selected people. So that's another kind of problem of being able to, you know, have the business opportunities spread out.

Right now, one of the things that is—they are wrestling with is the over—humanitarian effort of passing out food, because it's killing the local market in Haiti, of people who make a living selling food. I just had an eye-opener on something that I'm not sure about, I'm still wrestling with, because I am worried about the shelter, or lack of, for the coming season, and afraid of hurricanes, etc. And I know that the tarps and some tenting is just insufficient. It's not going to do the job. And I was thinking about what could be done in the absence of being able to put housing online fast enough.

And I thought about containers that could perhaps serve the purpose. Because, as these big international shipping containers are very well-constructed, a hurricane can't move them, etc., but someone said to me, "Well, first of all, it takes up space, and the government now is supposed to be identifying the lots that are available to build the housing on, and, secondly, it displaces potential labor," except they would have to be retrofitted, which is—you know, which would create some labor, but they are thinking that building the housing, of course, you know, from the ground is more labor-intensive. But it's going to take a longer time. And what is the cost of doing that in human suffering?

So, these kinds of things, I know, are complicated, and they have to be raised. But who—which one of you would have an idea about something that the USAID could do to foster and facilitate the ability to involve more Haitians in business and entrepreneurial oppor-

tunities? Who could help me with that? Mr. Roodman, you have already spoken. What about Mr. Sanbrailo?

Mr. SANBRAILO. Thank you very much. I speak here as the representative of the Pan American Development Foundation, an NGO, but I spent much of my career as a USAID director in a number of very difficult assignments. And I would beg to disagree that it's necessarily the rules in which AID operates. I think much of the AID funds are actually spent for local procurement in Haiti right now, as in most other countries.

I think the cases that are being referred to are largely food aid, where there is only one example of rice, and the unfortunate case of rice, and there are other cases like that. But most of the funds are being actually spent in Haiti for local procurement for a number of programs.

Let me just address, specifically, your question. What can USAID do? We have worked in Haiti for 30 years. We worked closely with USAID, as well as with other donors: the World Bank; the Inter-American Development Bank; and other agencies.

One of the biggest issues that I see with USAID and Haiti right now is the mission there is tremendously understaffed. It does not have the necessary people, particularly compared to the dimensions of the disaster. I have been through natural disasters in El Salvador, in Honduras, and in Peru as a director, and I compare the missions that I directed at that time to one in Haiti, and you just do not have sufficient staff.

AID also, over the years, has not been able to recruit senior people, people with tremendous experience, to be able to deal with multiple natural disasters. So I think it is people who are—that I would say are the real constraint. People will make the rules work, and address the issues that I think you are rightly pointing to.

There are all kinds of issues that Haitian groups and Haitians have in dealing with U.S. foreign aid, as with other assistance. And there is just no substitute to having a well-staffed, proactive—and I want to underline “proactive”—aid mission that reaches out to the Haitian community, and involves the Haitian community in the design, development, and implementation of those programs.

Let me also just mention that we are implementing a home improvement program with AID funding, as well. And what is absolutely critically important is to get Haitians back into homes that can withstand heavy rains and the hurricanes through home repair. I think we are going to be able to get more Haitians back into homes through rapid repair, assuming the houses can be safely repaired, and we are putting together teams of engineers who can do that, and we are confident that we are going to see alternatives.

Clearly, you need different types of options and alternatives to be able to address the dramatic situation of shelter in Haiti right now, but we feel this is one of those. Thank you very much.

Ms. WATERS. Thank you very much. Mr. Pierre, is it GaMa Consulting?

Mr. PIERRE. Yes, correct.

Ms. WATERS. What do you consult about?

Mr. PIERRE. That's a good question. Actually, this is a company that was created—me and my partners, my wife—we were looking for a name. And we come up with “Consulting,” because we didn't

know anything about business. And what—we do consulting in computer and engineering, and—but we have a—today it's a type of CompUSA type business in Haiti. I mean, we sell computers and Internet and technology.

But if—I want to address one important point regarding your question today. I think in order for the local people to be able to sell to big entities like USAID or big businesses, they need to know you. I mean you need to go from the informal to become formal. And when you started, access to capital, it's a real challenge for all young Haitian business—or all young Haitians who started a business.

I remember what I go through in 10 years. It cost me, in the last 3 years, approximately \$60,000 to \$70,000, going from bank to bank, to get the right finance in order to buy a building, because I wanted to do something different than others—\$60,000 in 3 years.

Ms. WATERS. You're talking about U.S. banks?

Mr. PIERRE. Local banks in Haiti.

Ms. WATERS. Yes.

Mr. PIERRE. Because I couldn't get access to credit, even with the bank that I was working for 10 years in the past. That's the situation of the access to capital.

But when I finally got access to credit, I was able, in 2 years, to double the revenue of my business. And this is why, today, I pointed out the idea of how to address the question of capital to help business grow, and what a business can do for this country when this business is growing. Because I was able also to go from 10 employees to 30 employees in that same period of time. And I have been able to pay more taxes to the government, contribute more to the government, and help the government come and find more money to generate funds for education, health, and others, provide services to the people.

And that is the idea behind everything I have been doing for the past years. If I can create—to have 200 or 300 companies like mine around the country, how this country would change. And what can USAID do? I remember in the last meeting with Ambassador Sanderson, and I remember she was asking the same question, approximately. "What can we do for Haiti?" I told her, "That's a good thing to give us. That's a good thing, to come and help us."

I remember when I was a kid, every time I saw a new school or a new hospital, I saw a government official. I saw a Haitian. And I understood from that Haitians are able to do something. Today when you open newspapers, you see on TV, you see USAID or foreign companies helping us. When you give me fish every single day, you don't teach me how to fish, so what am I going to do? Just go and ask you for more.

And that's what exactly Ambassador Sanderson was going through. Every time she was in a plane, people was asking for a visa, because they want to leave the country. There is no ownership to the country. And that is one of the biggest problems Haiti is facing today. The poor people, they are trying to find any way to leave their country: by plane; by boat; whatever they can do, they're going to leave. The middle class comes to the United States to have their kids, because they want the safe haven for their kids. And the

rich people, 1 hour and 45 minutes from Miami, make the money in Haiti and enjoy it in the United States.

There is no country that we can change without people, their own people, to have ownership of the country. By creating more businesses, by providing capital to help young people get businesses out, by providing capital for the small businesses to grow, for the medium-sized businesses to become bigger, this will help the government because they will provide more revenue to the government. This will help the country. Thank you.

Ms. WATERS. Thank you. Mr. Driehaus is here. Would you like to take 5 minutes for some questions, Mr. Driehaus?

Mr. DRIEHAUS. I apologize, Madam Chairwoman. I was in the Chair over on the Floor, and so I didn't hear most of the testimony.

But just following up, Mr. Pierre, on what you were just saying, I'm a former Peace Corps volunteer. I worked in West Africa. And I'm familiar with many micro lending arrangements. How can we empower Haitians to engage in small business development? And can we pursue avenues such as peer lending, so that there is the engagement, there is capital infusion coming from the outside, but the management decisions are all being made internally by Haitians for Haitians?

Are there models that we can learn, you know, from other areas around the world, especially when it comes to micro lending and small business development?

Mr. PIERRE. Actually, there is—we don't have institutions that are helping in that sense. And we have only one institution trying to help some businesses, but it's not enough. And when you go and consider the micro enterprises in Haiti, they are all collapsed today. I mean there is no money in these, they are collapsed.

What I suggest is a type of institution that can inject, on an annual basis, capital in the micro enterprise in the form of loans, low interest rate, not the micro credit interest rate today. This fund can assist those businesses to get them financial training, get them in the training process, and at the same time help them formalize. Because the formalizations will get them to the point where they're going to pay taxes and contribute to the tax base. Because in order to get out of poverty, we need to enlarge the tax base.

Mr. DRIEHAUS. To what extent does the average Haitian have faith in the system, in the financial sector, so that they are willing to go to the financial institution for a loan, a traditional-type loan?

In so many places—and I'm not familiar with the financial sector in Haiti—but in so many places, especially in developing countries, there is a great reluctance to interact with financial entities, simply because they don't believe in the government, they don't believe in those financial entities. And that's why pure lending arrangements are often so much more effective, because they know who they're dealing with.

To what extent is the formal financial sector in Haiti able to accommodate? And to what extent is their trust between those same Haitians that might be developing the small businesses and the financial institutions?

Mr. PIERRE. Today, I would say there is no trust. The small businesses get their money—the micro gets their money from, basically,

the micro credit. And the micro credit is a high interest rate, but the loans are very fast and they will get it there.

The medium businesses, it is really tough when you have to get access to capital. And the traditional banking system is very reluctant also to lend money, because of the whole credit issue, the old credit system that's in place. So it's a real challenge today to access credit in Haiti.

Mr. DRIEHAUS. I would open it up to any other members of the panel, if you would like to talk about other arrangements that we have learned from other developing countries that might be applied to Haiti. Mr. Winter?

Mr. WINTER. Thank you. Yes. The USAID project that we are currently part of, which started the middle of last year, and is known as the Haiti Integrated Finance for Value Chains and Enterprises program—or HIFIVE for short—is designed to tackle exactly the issue that you're talking about.

There have been a lot of USAID projects over the years that have stimulated the development of small businesses, particularly in value chain contexts, value chains such as coffee, cocoa, mango, tourism, handicrafts—all potentially competitive sectors for Haiti. But the businesses, as Mr. Pierre says, struggle to get financed. So, the project that we're part of is designed to address that gap by supporting those businesses to develop stronger business plans and stronger businesses, business operations and so on, to be able to access that credit.

Now, you still have a problem, because the financial institutions are not really motivated and excited about lending into this sector. So I believe there is still significant space—if we go back to Congresswoman Walters's point about what can AID do, or what can the U.S. Government do, I think there is still space for some kind of a funding mechanism or a guarantee mechanism that could work alongside those formal financial institutions to sweeten the deals—in other words, to provide perhaps, for example, seed financing or first loss guarantees and so on, to encourage those institutions to actually make those loans that they are currently very cautious about.

And I believe that if you can start to get that cycle working with good quality businesses, then able to access finance, you will change the model and you will change the mindset. Thank you

Mr. DRIEHAUS. Do you still run into an issue of trust, though, when it comes to the individual seeking micro financing, especially, being far less willing to go to a formal financial institution than they might—more traditional means of financing?

Mr. WINTER. Yes, I'm talking more about the somewhat larger businesses than the micro credit side of things. But I think the trust issue is there. It doesn't matter what size the business, in a sense. I think you have the trust constraint. And I think you break that trust constraint by starting to get these institutions working, starting to get them to actually deploy credit where it's needed, and the evidence base then provoking a shift in culture, and a shift in attitude.

Mr. ROODMAN. The title of the hearing includes both micro and small enterprises, so there is this distinction. For the micro enterprises, we are thinking of the subsistence, economic activities with-

in a family, probably. There are a growing number of pretty impressive institutions in Haiti serving them: Fonkoze; SOGESOL; and others. And maybe they're not yet close to meeting the demand. But they are doing what I think you are talking about. They are providing credit at the micro level, borrowing models and adapting them from the rest of the world.

And, actually, they are doing—at this point, most of them—the big ones have more savers than borrowers, which is a sign that they are winning the trust of the Haitian people. So I think there is good news there. But that is a separate question from whether—probably the system is doing a worse job of delivering credit to businesses a step up, the ones that can create jobs and grow.

Mr. DRIEHAUS. Okay.

Mr. SANBRAILO. I would just like to further expand on that last point. There are institutions doing micro credit and small business development in Haiti. Fonkoze is one of those, and doing some very good work at a very small level, a small number of loans, a small number of people being assisted.

I should—I think we ought to also emphasize that there are two—the two leading banks in Haiti, Sogebank and Unibank, also have specialized programs for micro credit and for small enterprises. And, at least prior to the earthquake, they were involved. Those programs could be expanded with additional assistance.

Clearly, the earthquake has disrupted the banking system, seriously disrupted, clearly, the entire economy. But there is something to be built upon. There are institutions, not-for-profit institutions, for-profit institutions that are attempting to expand credit in Haiti. There are also, as I mentioned in our written testimony, examples from the Dominican Republic, from El Salvador, and from other Latin American and Caribbean countries, as well as from the rest of the world, that are well known and can be used and are being used in Haiti to do exactly, I think, what is being talked about here.

Clearly, what is needed is acceleration in the provision of funding and technical assistance to be able to support those.

Ms. WATERS. Thank you very much—

Mr. PIERRE. I wanted to make a point—

Ms. WATERS. Yes.

Mr. PIERRE. —regarding that specific aspect. From numbers that I get, we have approximately 800,000 micro credit, eventually. There is approximately 200,000 recognized—or they have inventory approximately 200,000. Only 60,000 receive money from micro credit institutions. And when you look at the type of funds that we see, the average for some of them is \$100 and the other average is \$1,000. And the interest rate is going from 48 percent to 60 percent a year.

We have to be—in order to take development—and that's my point, and there is more in my statement regarding that—if we think about a developed Haiti, we need to get to a point to say, "Hey, are we going to develop this country with this type?" I don't say we don't need the micro credit institutions, but we need different types of funds that help those businesses to grow. Because these businesses are not paying taxes. They are the informal sector.

If they are the informal sector, then I contribute to the tax base. And what we do need today, in order to have Haiti sustainable, we need businesses that can grow, that can get access to fund with low interest rate, and then receive financial, administrative, and fiscal assistance. And for these businesses, when they're going to grow, they can give the result that I have been giving with my business. That's what we're thinking about.

And this has to be serious, and we have to consider different, effectively, size of businesses. The micro, the small, and the medium size, different approach. Banks usually, in Haiti, said, "Hey, we are not going to go for the medium-sized businesses, because they are not profitable. They are not profitable." If you consider, like, my business, for example, the amount of money that I am paying for banks, compared to my profit, it's very high.

But this is the situation we have to address in Haiti. And I think—and that's why exactly I go in my testimony—I—to provide capital fund to three current underserved segments of the private sector. Three segments—

Ms. WATERS. Thank you very much. I am going to kind of cut you short at this point. The chairman came in. Mr. Chairman, we were just breaking all the rules and having a conversation here, because there are so few of us. And I was trying to solicit from this panel ideas about where to get capital, learning more about what's happening in Haiti with the many capital opportunities.

But, Mr. Chairman, as I turn this over to you, we had some testimony from Mr. Winter, the senior vice president of development for TechnoServe, and he said something about funding opportunities under HIFIVE. If you don't mind, I would like to know what that is. Is there a source of money in USAID that we don't know about? Please tell us.

Mr. WINTER. Thank you. No. The HIFIVE program is not a fund. The HIFIVE program is a program to provide training, technical assistance, and guidance to the enterprises that are being identified through other programs that are funded by AID that are constrained from accessing capital.

It's effectively a smart brokerage system, if you like, because it is going to then take those entrepreneurs, introduce them to the sources of capital that are available in Haiti right now, find out why they can't be financed, and then put in place the business-strengthening programs and advisory programs and consulting support and training that is needed, then, to get those businesses up to the point where the lenders and investors can then put the money in.

Ms. WATERS. Mr. Chairman?

Chairman MEEKS. Thank you. Let me start right out with Mr. Winter, because I was in the UN. They had the donor's conference, etc., and they gave us some juice that was there that was from fruits, we were told, from Haiti, and that was utilized by helping farmers in Haiti.

I was wondering if you could tell me—and I think they used that number, he was going to be trying to reach up to 25,000 farmers—whether you could tell me what's happening with that program, whether or not there is going to be value-created benefit to these local farmers, and where we're at right now?

Mr. WINTER. Okay. Thank you, Mr. Chairman. Yes, that project, which is called the Haiti Hope Project, is being supported by Coca Cola, through the sales of the juice, the Haiti Hope juice being currently branded under Odwalla, as a mango limeade. The profits, 100 percent of the profits from that juice, are going to support the funding of this program. We are also hoping the program will be funded by the IDB, Inter-American Development Bank—there is a proposal currently going through—and USAID. And we are at early stages with AID right now.

What the program is going to do is take a comprehensive look at what has already been achieved in the mango sector, and the—as we have heard from many colleagues on the panel, there are things happening, very positive things happening, on the ground. Mangoes is a huge opportunity—it's the third largest export out of Haiti on the agro side at the moment—but a tiny percentage of the potential value of that sector is currently being created.

To give you some numbers, something between 200,000 and 400,000 tons a year of mangoes are produced in Haiti. Only 10,000 tons a year of those are exported. And well over 50 percent of the rest rots before it ever gets to market. So there is huge value in that sector that is not currently being realized for the farmers, and potentially for entrepreneurs in Haiti.

The project design, which is currently being done on the ground by a team in Haiti right now, is designed to unlock that value, to help to train the farmers in improved agricultural practices, to help organize those farmers so they can establish farming groups to access imports, to access the output markets, to build collection centers so that they can aggregate those mangoes into—and package them then for the market that would be farmer-owned businesses—and there are some good models already, but there are very few of them currently operating—and then to look at value-adding opportunities for processing those mangoes into juice and into other products—dried mangoes, and so on. There is virtually no capacity in that middle segment of the mango sector right now in Haiti. Huge potential for it. And that would be a great entrepreneurial opportunity for Haitian entrepreneurs. And that's what we want to try and develop.

So, it's local markets and export markets, value-adding opportunities—25,000 farmers is the initial target. We believe there are at least 100,000 people—families in Haiti right now—who have access to mangoes. The idea would be that you catalyze change in the entire sector. But it also becomes, then, a role model for such development in other sectors, as well. Thank you, Mr. Chairman.

Chairman MEEKS. Are you looking to develop capacity, especially for the value-added? Because one of the ideas now, because of the devastation in Port-au-Prince, is to create towns outside of Port-au-Prince, and those kind of value-added benefits could create small cities outside.

But, you also have to make sure you're creating capacity-building. Is there any kind—in regards to the project and capacity building so that you can create the jobs?

Mr. WINTER. Yes, Mr. Chairman. The preliminary design that's unfolding at the moment would have six regional towns outside of Port-au-Prince in the rural part of Haiti be the sites for those ini-

tial aggregation points and the collection centers. So the idea would be to create employment in those places, locations outside of Port-au-Prince, as the first collection points, and potentially the processing centers, as well. So it is absolutely designed to do that.

We haven't consulted yet as widely as we want to on the design of this. So, the team on the ground that is designing this program has done a lot of consultation with the existing industry stakeholders. But we do want to have a much broader consultative process, to make sure this is really a Haitian-owned and Haitian-led and Haitian-driven initiative.

I don't want to commit to anything at this point, because we do really want the Haitian voice to be in there, and making sure that they are making the decisions about the perfect locations for these programs.

Chairman MEEKS. Thank you. Mr. Barrau, let me ask you quickly, I was interested in your testimony, and there was something that you said, and, quite frankly, sometimes we deal with the same issue in the African-American community here, in the United States, where you mentioned the importance of changing—understanding the culture of Haitians, of course, but you talked about changing the mentality of “God will prevail.” You talked about that as it was related to financial planning and risk management in Haiti, and that yet it seems that this is deeply ingrained in people, you know, as opposed to getting financial literacy, etc. Can you elaborate on that?

What do you think—how much of it is actual cultural—because what happens, I have found here, some of it is cultural, but some of it really is having the financial barriers. You can't get the door open. You can't get in there, so you get frustrated because the opportunities doesn't seem to be there for you. Some people will say it's cultural, but the fact of the matter is the system is lined up against you so that you can't knock the doors down. What would you say?

Mr. BARRAU. Thank you, Mr. Chairman. I think, with all the surveys that we have done throughout the country and with—specifically for micro insurance products, we had to understand the people, we had to understand the market that we were targeting. And in the surveys we realized that Haitians use different types of vehicles to manage risk. It's just that they couldn't find the proper tool, which would be insurance, because it was not adapted to their needs. It was not adapted to their culture, in how do you explain the product to them. And also their cash flow, because they don't have a constant cash flow. It comes in and out.

So, building products was a challenge, and taking all of these points in order to develop a product was very challenging. And I will take a couple of quick examples, is that out in the rural areas each animal represents, at the end, in our understanding, a financial tool for that person. The chicken that the farmer has is like their checkbook. If they have something that they need, it can be easily sold. A little money takes care of that situation right away. If he has a cow, the cow is the CD to him, which is only for big emergencies that they could—they need to address that issue.

So, taking all of the way that they are thinking about risk management, the challenge was to find ways to find a product that

works better, so that they don't have to go to their savings or their CDs or their checkbook. So that's why I was saying that culture is important. And this needs to be really taken into consideration. You cannot force on them the traditional products. They have to be adapted.

One of the biggest issues that helped us also make our products viable is the fact that throughout the world—especially in South Africa, for example, where funeral insurance is a very big product, but they have a very, very low renewal rates. And in our survey, the low-income populations couldn't understand that if they pay for the insurance and nothing happens, that they don't give them back the money that they paid.

So, by doing this, what we did was we told them—we made some sort of a savings, where we told them, “You will get part of your money back, but within 3 years.” And it was okay for them and at the same time okay for us because our renewal rate went fly off the roof that no other countries could do. Because, for example, South Africa is 40 percent renewal rate when we, ourselves, we got to 89 percent renewal rate, just by listening to these people, what their needs were, and how we developed the products.

So, finding ways to insure—which is extremely important—the small to medium enterprises and the micro also, is important because it can be counterproductive. You know, micro credit, or credit in general, can help somebody move forward in the ladder. But it can be also counter-productive if it's not accompanied by the tool that helped these people face their shocks.

Or, if you use micro finance to generate income, and that person doesn't have a safety net, once they have a shock they will pull out that money to face that shock, and that money will not be generating income any more. So micro insurance and micro credit, micro finance, are together, they need to be together. Otherwise, it will be counterproductive.

Chairman MEEKS. And my last question would be—I want to ask Mr. Pierre one, too, but—the government didn't appear to have insurance, either, after the earthquake and some of the other storms. Could you say anything on that?

Mr. BARRAU. That was the next step in my written remarks, is that to change that culture we have to start from the top. No government buildings, no infrastructure, nothing was insured. There are a couple of independent government-owned agencies, such as the Central Bank and BNC, which have their own insurance products. But the government had nothing.

They benefitted from the CCRIF. The CCRIF is a program that was put in place with the help of the World Bank to help nations face short-term liquidity needs that they have following a disaster. But that's to start rebuilding efforts. Haiti benefitted about \$8 million from this program, which is a very low amount of what is needed. But, in reality, none of their properties for their operations was insured. The parliament is down. The palace is down. The justice system is down. The public health hospital is down. None of that was insured. And this is all going to be very, very costly to put back together.

So, again, a question of culture. We need to see things going. We need to be doing much more risk management. And it has to start from the top. Government has to take the lead on this, I believe.

Chairman MEEKS. Mr. Pierre? But let me give you my question also, and you can add on to what you say, because that will be my last question. As we were trying to put together this hearing, we were asking a number of individuals in Haiti to give us a successful business person who really started from zero, who didn't come from a family who had a lot of money, or anything of that nature. And no matter who we went to, they always came up with your name.

But then, when we would ask for someone else, they were hard-pressed to come up with anyone else, which seems to me to be part of the fundamental flaw. And I don't know whether Ms. Waters has said so yet, but at a number of hearings we have come where we have seen entrepreneurial opportunities, especially given the crises that are currently about to take place because of the rainy season, where there are NGOs that are building homes that could have been business people building homes, and other activities there that could have some who has an entrepreneurial spirit put them in business.

So, my question to you is, what do you think can do to help generate the entrepreneurial experiences of individual Haitians to take the place of the NGOs, and how can we, from the USAID or others, help make more people like you?

Mr. PIERRE. I think that is a good question. And I think also that is what I have been fighting for.

In 2008—April 8, 2008—when I started my journey, when, after the food riots there were—all my business was broken down. I had insurance with AIC. That saved my business. And I understood that day, when I was in the middle of the street with those young people who were throwing rocks at my business, they were breaking a bourgeois business—that means a rich person's business. They didn't recognize me as the business owner. And that's the problem of the culture and attitude regarding private investment.

At a certain point, the young Haitian doesn't believe that he could ever be a businessman. When they saw me sometimes they identified me as a driver of my wife, or the driver of somebody. I am not a businessman until they know. And if they know that I am a businessman, then I become a bourgeois, I mean a rich person coming from another world.

That is the whole thing we have to change. And that day I decided to write a book about my life, and the powerful dream, and the book that I have been going around the country and telling young people, "If I did it, you can do it too."

I didn't have a chance to study in the United States or in Canada or in France, anywhere else. I studied in Haiti, in the state university. I studied engineering. And 6 years later, I decided to start a business. I applied certain rules. And that is exactly, I am suggesting to USAID, to any groups or any people who want to help Haiti today.

Haiti has been in a circle of survival. Poverty, decapitalization, international aid, and so on. Mistrust and the survival cycle continue. We are talking about what? We are talking about Haiti be-

coming a prosperous country. In order for Haiti to become sustainable, we need young Haitians to start to create businesses. By creating businesses, they have to start somewhere. First, it's a mindset. We have to tell them they can. How to do that? It's through role models. We need role models, and that's why the Pioneers of Prosperity contest was very important.

But now, today, I said there is a problem. I cannot be that model. I need to create 200 young people, young businesses, who come out and say they were in their neighborhood, they created it. And others will follow. And I keep on saying President Obama today is the result of a dream 45 years ago of Martin Luther King, Jr. People see it as model. And I have been looking for a certain time. Black Americans used to see themselves as basketball players. Now they see that they can be President of the United States. It's through role models, they visualize it. And this is what Haiti needs today. We need to invest in those people.

How? We need to create a fund to—when they started, after they receive the education, after they have the ideas, to get them to start, and give them the proper training to avoid the steps that I went through, because it has been a long process for me, 12 years, to get to where I am. Now I need those kids to do it in 5 years, because Haiti cannot wait any more.

Ms. WATERS. [presiding] Thank you very much, Mr. Chairman. This hearing, Mr. Chairman, has been very good. Each time we do this, we learn a little bit more. I think the testimony that I have heard, or the questions that have been answered by all of the panelists have been very helpful. I am particularly inspired and enlightened by Mr. Pierre's testimony, because he has such a positive vision with so much hope for the possibilities of Haiti.

And, Mr. Chairman, I suggest that coming out of this committee one of the things you may provide us with some leadership on is this. We were at the donors conference in New York, where a number of countries stepped up to the plate. The United States, I think, stepped up to the plate with \$5.7 billion/\$5.9 billion, in addition to what we are already doing.

We, from this side, maybe with the bill that you initiated—and I would certainly support that—could carve out, in our donations, a loan guarantee fund or a loan fund. Because this access to capital is at the basis of everything. And there is technical assistance, there are creative and alternative ways to look at insurance. There is the possibility of renovating some of the existing structures, to make them livable. There are a lot of possibilities here.

But the basis of the progress is going to lie in the ability to get some capital. And I see no reason why, if USAID has not stepped up to the plate with a loan guarantee fund or a pure fund to be managed in some way—it seems to me that what was suggested, I think by Mr. Winter, had to do with getting the local banks, who are very reluctant, even after they redo themselves after this earthquake, to lend money. And if they had a guarantee, I think they would certainly—you know, you could do, you know, anything from a 90 or an 80 percent loan guarantee, or you could do a 100 percent loan guarantee, depending on what you structure.

And certainly, if we said to the Haitian banks that we would guarantee a loan, help to develop the criteria with them, working

together, that may be a whole new way of infusing some capital into Haiti for the entrepreneurs who have the ideas and the spirit. And I want to tell you, the entrepreneurial spirit is in Haiti. We went into camps where people were selling CDs and, of course, selling food.

And in all kind of ways, I was just amazed at the ways that people had created this town inside the camps, and were selling things and making money. One person had turned their camp into like almost a little movie theater, you know, with the DVDs and on and on. So, the entrepreneurial spirit is there. We have to get some money. We have to get some money there. And this may be one way of looking at it.

Let's identify and carve out an amount of money, legislatively, and say, "This money is to be used for this purpose." That may be something we can do.

I thank you so very much, Mr. Chairman. If you do not have anything else you wish to do, the Chair notes that some members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses, and to place their responses in the record.

I thank you, Mr. Chairman, and this committee is adjourned.
[Whereupon, at 4:50 p.m., the hearing was adjourned.]

A P P E N D I X

April 28, 2010

**Opening Statement of Ranking Member Spencer Bachus
Financial Services Subcommittee Hearing On
“Promoting Small and Micro Enterprise in Haiti.”
April 28, 2010 2:00 p.m.**

Mr. Chairman, thank you for convening this important hearing. Although the world’s attention has somewhat strayed from the tragedy in Haiti, you have not allowed this Committee’s focus to waiver. As Haitians struggle to recover from the earthquake and begin anew, it’s important that we discuss efforts to forgive debt owed by Haiti, and how best to promote small and micro enterprises in Haiti.

Though we have not forgotten the still-urgent needs of Haitians during the emergency response phase, our focus today is on how to achieve long-term economic development in a country that has suffered so much devastation. Unfortunately, foreign and U.S. aid alone cannot create the development needed to fully assist the people of Haiti. If that funding alone were sufficient, Haiti today would be a strong, prosperous nation. Chairman Meeks, you correctly acknowledge the need for viable small and micro commercial enterprises to jump-start and sustain development. The question is how best to support those entities.

When assessing that question, one thing is certain: We must not continue the failed policies of the past. To be successful, we must have the “buy-in” of the Haitian government, and also of its people.

The challenges to fostering the right entrepreneurial structure and economic culture are great. For too long the government, intentionally or unintentionally, has followed policies that stifle entrepreneurship. Instead of helping small enterprises gain access to credit and markets, the government has imposed burdens that push most business operations out of the private sector. Those failed policies

cannot continue, and ensuring that firms throughout the country receive access to financial products must be a priority.

The government must also work to establish a better environment for small and micro enterprises. To the extent that the U.S. can help, I am certain Haiti will find no shortage of friends on this Committee, and I am confident we can facilitate their goal of a sustainable economy.

Again, Mr. Chairman, thank you for your efforts on this important issue, and I yield back the balance of my time.

**Opening Statement of the
Honorable Maxine Waters, D-35th CA
Financial Services Subcommittee on International Monetary Policy and Trade
Hearing on “Promoting Small and Micro-Enterprise in Haiti”**

Wednesday, April 28, 2010

2128 Rayburn House Office Building

2:00 p.m.

Thank you, Mr. Chairman, for organizing this hearing to discuss how we can effectively promote the development of small and micro-enterprises in Haiti and ensure that small business people in Haiti have opportunities to be involved in Haiti’s reconstruction and development.

I would also like to thank this committee for its support in passing H.R. 4573, the Debt Relief for Earthquake Recovery in Haiti Act. The House agreed to the Senate amendments to H.R. 4573 on April 14th, and the bill was signed by the President on April 26th. I am very pleased that this bill is now public law. Debt relief is essential to Haiti’s future, and the immense debt burden would have severely impeded the country’s recovery efforts. However, we must keep in mind that Haiti will continue to depend upon the support of the international community for both its immediate and long-term development plans.

According to the U.S. Agency for International Development (USAID), 230,000 people were killed and 1.3 million people were displaced from their homes as a result of the devastating earthquake on January 12, 2010. While I applaud the ongoing efforts of our government, military, and charitable organizations for the assistance they have provided thus far, there is still a desperate need for clean water, food, shelter, and basic sanitation. There is also a need to plan reconstruction and development efforts carefully

so that Haiti will be able to “build back better” and create a better future for its people. These reconstruction and development efforts must create opportunities for small business people in Haiti and allow them to be involved in building their own country.

I recently returned from my second trip to Haiti since the earthquake. While I was there, I organized a meeting between a Contracting Officer from USAID and approximately 150 Haitian small business people and individuals who wanted to start small businesses. The Contracting Officer discussed USAID’s contracting opportunities and explained how Haitian small business people can apply for contracts.

During this meeting, it became clear that there are significant barriers for Haitian small business people who want to bid on USAID contracts for development work in their own country. For example, USAID’s contracting opportunities are described in English – not in Creole or even in French. This effectively excludes Haitians who may be capable of implementing projects on the ground in their own country but who never learned a foreign language. USAID also requires potential contractors to comply with significant technical, bureaucratic and accounting requirements, which may be considered routine business practices by most American businesses, but which are beyond the capacity of many Haitian businesses.

Therefore, Mr. Chairman, I am interested to hear from our panel of witnesses about how we can reach out to Haitian small business people and involve them in the development of their own country. I am especially interested to know if they have suggestions regarding how the development policies of USAID and other international agencies can be improved to provide opportunities for small businesses.

Thank you, and I yield back the balance of my time.

The Haiti Reconstruction Effort
Promoting Small and Micro Enterprise in Haiti
Testimony before the House Subcommittee
On International Monetary Policy and Trade
By
Olivier Barrau

Mr. Chairman and Honorable Members of the House Subcommittee on International Monetary Policy and Trade,

Thank you for providing me the opportunity to talk to you about my views on the Haiti Reconstruction Effort and on the critical role that micro, small and medium enterprises (MSME)– and especially insurance – should play in this process.

Following the biggest catastrophe that Haiti and maybe our world has known in terms of casualties and deaths, I think we have several learning opportunities in front of us.

Given that Haiti cannot get back on its feet alone, I think the first place the International community could start addressing how to help build back a better Haiti is by asking a few fundamental questions:

What can we learn from this catastrophe?

What areas are of utmost importance in rebuilding this nation?

What ingredients were missing in the previous attempts to get Haiti on a sustainable path of social and economic development?

Is insurance indispensable in building a stronger MSME sector?

I would like to take this opportunity to stress the point that one of the important missing links in the Haitian prosperity chain is risk management. When we are thinking about important issues in the socio-economic development of Haiti such as education, health care, justice systems, energy, government capacity-building, the role of the private sector, and finance there is a tendency to forget about the importance of risk management, and more specifically insurance.

In his book "Against the Gods, a remarkable story of risk" Peter Bernstein, argues that the notion of bringing risks under control is one of the central ideas that distinguish modern times from the distant past. If we think about it, it is also one of many reasons behind the difference between developed countries and those considered underdeveloped.

There are two great citations that I believe illustrate very well the importance of insurance:

"New York was not created by men but rather by insurers...without insurance, there would not be any sky scrapers because no workers would accept to work at such heights risking a deadly fall and leaving behind their family in misery. Without insurance, capitalist would not invest millions of dollars to build such buildings that a simple cigarette bud would reduce to ashes..." Henry Ford

"If it was possible for me, I would write the word insurance in each home and on each man's forehead, since I am so convinced that insurance can, at a moderate price, liberate families of irreparable catastrophes" Sir Winston Churchill

Observers argue that there is a direct correlation between the number of deaths following a catastrophe and insurance penetration rate in a society. A vivid example can be seen this year: Haiti faced a 7.2 magnitude earthquake with over 250,000 deaths and Chile, a much more developed country, faced an 8.8 magnitude earthquake (which is 500 times stronger) with less than a 1,000 deaths though twice as many buildings were damaged¹.

By looking at the penetration rate of insurance, which is the premium volume generated by a market as a percentage of GDP, and the density, which is the premium volume per capita, it is quite clear that developed nations understood very quickly and very early in their nation-building that insurance should play a major role in their strategy and therefore did put in place the proper mechanisms to promote the industry.

In the US, the penetration rate is +9% with a density of just over 4,000.00 USD². This can also be seen in countries that have left the category of underdeveloped nations and are considered today as "emerging economies". They have a penetration rate between 2 and 6%. Chile one of the richest nations in South America has a penetration rate of 4% with a density of 344.00 USD.

In Haiti, however, the insurance penetration rate is close to 0.30% with a density of 3.4 USD while our next door neighbor the Dominican Republic has reached a 1.5% rate with a

¹ <http://www.csmonitor.com/World/Global-News/2010/0302/Chile-earthquake-facts-Chile-vs.-Haiti-in-numbers>

² http://media.swissre.com/documents/sigma3_2009_en.pdf

density of 64.30 USD³, and this rate is growing steadily. Translated in dollar amounts, it represents approximately \$25 million and over \$300 million dollars of premiums respectively.

By answering how Haiti can increase its insurance penetration rate we will surely help answer some of the fundamental questions posed above, and reduce reliance on international aid in case of future catastrophes.

Before exploring the possibilities on how to increase the penetration rate, allow me to take a few minutes to talk about the context in Haiti:

Due to its geographic positioning, Haiti is constantly exposed to natural disasters. Over the years, the socio and economic impact of weather-related risks have constantly increased due to the degradation of the environment. Most recently, in 2007 Haiti was hit by tropical storm Jeanne, and in 2008 alone, was hit by four storms in a three week period causing damages estimated at 15% of GDP.

On the financial side, only 25% of the population uses the traditional banking system. Of this group, over 80% of the activities are located in the area of the capital, Port-Au-Prince, with only 20% usage in by populations in the provinces.

There are an estimated 63,000 borrowers and an estimated 2,000,000 depositors. Only 30% of deposits return to the economic system in the form of credit.

On the micro finance level, which is estimated to be a potential market of at least a million borrowing clients, this sector is estimated at only 245,000 borrowers and 700,000 depositors. 85% of loans contracted by micro and small entrepreneurs are used for commercial activities rather than production or manufacturing which is much more durable in terms of development. 80% of Haiti's active and productive economy lies within the informal economic sector, which is the population in the pyramid that is the most vulnerable to risks. Following the earthquake, USAID through the project WINNER⁴ conducted a survey on the financial impact of several sectors of the economy and the results confirmed that out of an estimated 383,367 companies, 383,134 are from the MSME sector and 65.11% of the losses were suffered by this same sector. They were not insured.

Political instability has also resulted numerous times in the past 25 years in "manmade disasters" such as in riots, strikes, and civil commotion which constantly weakens economic capacity of the actors and especially the MSME sector.

³ http://media.swissre.com/documents/sigma3_2009_en.pdf

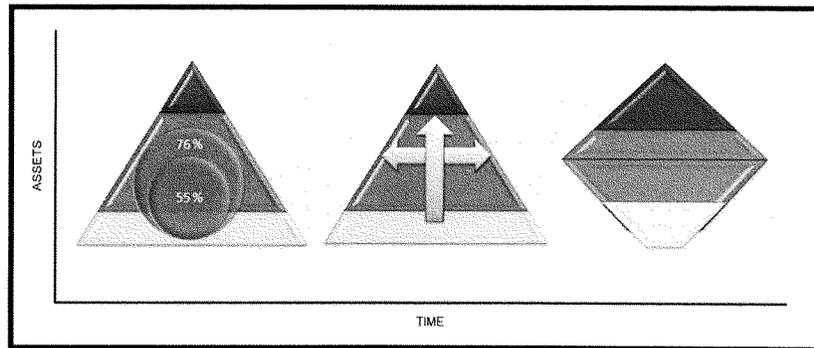
⁴ <http://winner.ht/>

Given this hostile environment to the investments required to rebuild Haiti, we need to strengthen, reinforce, support, supervise and facilitate the role insurance has to play in the economy. This would be a clear message that entrepreneurship and MSMEs are important in rebuilding Haiti, and risk transfer mechanisms are available to shore up investments. There are a great number of potential entrepreneurs that are above the micro finance level and below the traditional banking sector that needs to be supported with innovative financial products.

With the interest to facilitate and reduce the cost of money to young entrepreneurs and to give more businesses and Haitians access to insurance products, I would like to make two suggestions if I may:

- 1- On one side improve and increase access to financial products for the middle class and low income population to which are either attached or supported by insurance products.
- 2- On the other, build mechanisms of public-private-donor partnerships to give the majority access to social security and insurance products that can help them face the different shocks in their lives.

If those two suggestions are taken into consideration in the rebuilding effort of Haiti, the result will not be anything less than reshaping and strengthening our social pyramid (see diagram below) with a bigger and stronger middle class, more entrepreneurs and less people living close to or below the poverty line.



We also need to reinforce, formalize, accompany and regulate the MSME sector. By making this sector financially stronger, the social fabric of Haiti will be transformed, thus benefitting all involved:

- Government: a bigger fiscal base and a vibrant economy;
- Private sector: bigger buying power and better social services;
- Diaspora and respective countries: reducing remittances estimated to be at 1.6 Billion USD as per IDB 2006 survey⁵;
- International community: reducing dependency on foreign aid and a more stable Caribbean region.

With a mature MSME sector, we are pulling upward the bottom of the pyramid which will result in a diamond shape social structure with less people living below the poverty threshold.

1- Improving and increasing access to financial products to all Haitians:

Although it is necessary to support the traditional banking industry which is vital to the economy, in order to increase credit activities as a “jump start” to the economy, it is even more important to support other financial actors such as development banks and micro finance institutions. Traditional banking activities will not fulfill our hope that money will trickle down within the pyramid and the bottom will benefit.

We have seen and experienced the results of that approach before in other situations, not only in Haiti but also in other parts of the world. Today, traditional banking products are serving and are adapted to fit only the top of the pyramid’s needs. Entrepreneurs who do not qualify for traditional banking requirements will not be able to emerge. Meanwhile, if we take a bottoms-up approach, all layers of the pyramid will benefit, including the top which has products and services needed at the bottom.

While reinforcing the microfinance sector and giving the MSME sector access to financial products, we are creating more wealth, less social tension, and a new hope to this ever poorer Haitian population.

⁵ <http://www.iadb.org/news-releases/2007-03/english/remittances-to-haiti-topped-165-billion-in-2006-says-idb-fund-3637.html>

Besides the suffering and loss of dignity of the population, one of the major lessons learned following the earthquake of January, is that we need to do a better job at protecting the wealth that is being built in the MSME sector. Protecting that wealth means:

- 1) Access to insurance products and other social security mechanisms,
- 2) Capacity-building, regulation and supervision, education, for a strong insurance industry but most importantly,
- 3). A change in culture.

The challenge is to switch from a "God will prevail" culture that is prevailing in Haiti to a prevention culture. To be successful in that endeavor, we need to address two important aspects:

On one side, Communication and Education which is where the international community can play a major role by supporting, and investing more in USAID projects such as HIFIVE⁶ which has several success stories.

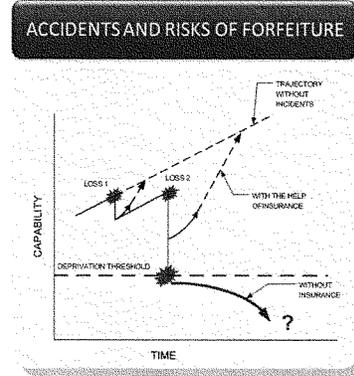
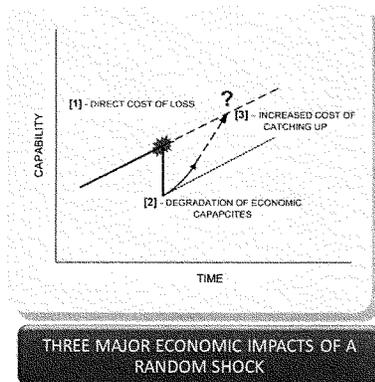
On the other, the international community needs to be firm in lobbying to the Haitian government that risk management is important. The Haitian Government needs to set the tone. The leadership of Haiti needs to lead the way.

Besides a couple of independent government-owned entities such as the Central Bank, and Banque Nationale de Credit, most if not all governments assets were not insured before the earthquake. The only insurance cover the Government will benefit from is the Caribbean Catastrophe Risk Insurance Facility (CCRIF)⁷. This facility was put together with the help of the World Bank to help the smaller nations of CARICOM with limited budget capacity and reserves face their immediate needs following a disaster. CCRIF, just as business interruption insurance does, covers governments for short term liquidity needs to start recovery efforts while maintaining government services. Haiti's payout will be just under USD 8 million, which can be considered a drop in the bucket. The participation of Haiti to the CCRIF programs was supported by a grant from the World Bank to pay the premium for Haiti. The initiative was not taken by our government which is maybe the logical explanation why the payout is so low.

⁶ http://www.microlinks.org/ev_en.php?ID=42075_201&ID2=DO_TOPIC

⁷ <http://www.ccrif.org/main.php?main=14&id=45>

Besides the direct physical loss, we can take for granted that any and all person, business or government that does not have insurance protection is bound at some point or points throughout their life to face an economic capacity degradation following realization of one or more risks that they face. With the capacity to generate wealth weakened, future generations will also face hardship.



1 - Source: M. Vaté (Institut Thomas More)

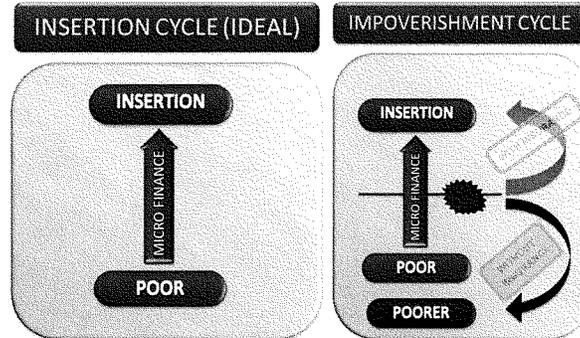
When thinking about how the International community can be more effective in helping third world countries lift themselves out of poverty, it is important to be thinking of poverty as a transitory state that is directly related to risk management.

Insurance is a powerful tool to help those it serves whether a business, person or government as a safety net so they can continue on their path to economic and social prosperity. Today, not only are most Haitians in the affected areas totally de-capitalized and becoming poorer, but worse, they lost the little that was left of their dignity and have no hope. Our government also was not spared.

"There are numerous studies that show when asked about financial products; low income populations prefer savings and insurance. For them it's a vital stake: it's about making up for an absent social system which is very frequent in a number of countries from the south."

(I. Guérin et M. Roesch, *Point de vue : Microcrédit, outil fragile, Le Monde* du 29.11.05)

Protecting the wealth that can be created in the rebuilding effort of the MSME sector is not only a priority, it's a must.



“Providing to the poor livelihoods without hedging against risks preventing their sustainability, could be counter-productive”

Sources : E.Gassana – « la pauvreté en Afrique et le Cadre Stratégique de Réduction de la Pauvreté, A.G FANAF, 13.02.2007

2- Build mechanisms of public-private-donor partnerships to give access to the majority to social security and insurance products:

A low Social security access level is the common denominator that is found in all underdeveloped countries. Haiti is no different. Less than 3% of the population has access to social security and less 200,000 people out of a population of 9.5 million have access to health insurance products. Faced with such a situation the population is forced to turn to unconventional risk management methods that are more costly such as loan sharks, taking their kids out of school, selling their assets, depleting the little savings they have. These methods always fall short of the expected results.

With innovative ideas and mechanisms, insurance and social security in underdeveloped countries can be complementary and not antagonists. For example, since crop insurance is very risky for traditional insurers and reinsurers, donor funds could be used to help insure this sector while at the same time, identifying and including small farmers that were totally absent from social security systems.

In this sense, it is crucial that the International community, in its strategy to help Haiti, support with both technical assistance and funds that can develop such initiatives: It is crucial to help Haiti establish the building blocks of a strong insurance industry that can really play both its social and financial role in the economy.

Moving forward, if we agree that insurance should be a pillar in the Haitian socio-economic life, the next question is what is the state of the Haitian insurance industry following the earthquake and how can we strengthen it so it can play its role in the rebuilding effort by continuing to assume risks?

Prior to the earthquake, although the industry had to face several challenges since the late 80's, including from riots on average every four years to natural disasters on average every two years, the industry could have been considered as stable and profitable. We can also consider that the industry, although not properly regulated, is being managed by trained and responsible professionals. The sector has practiced self-regulation to keep up with reinsurance requirements and international prudential norms.

Since the early nineties when all foreign companies pulled out of the market and the emergence of local companies came about, and up until the earthquake, not one company failed or went into bankruptcy. In the banking industry during that same period, the Central Bank had to intervene in at least five cases of failed banks in order to prevent systemic risks to the financial system.

Today, although the reinsurance world has been very proactive and respected its engagement, the insurance industry is in financial difficulty as the reinsurance cover bought by the local companies was not sufficient to cover the magnitude of the losses. When it came to reinsurance needs, insurers had placed more focus on hurricanes and riots and not enough on earthquakes.

According to the same WINNER⁸ survey done with the support of USAID, there is a gap in the system of approximately USD 40 to 60 million, and total assets in the system are very limited as insurers, due to limited capital, have transferred most of the risks and premium to reinsurers.

It is crucial and very much time-sensitive that the International Community assists local insurers in putting together mechanisms that can help them face their immediate obligations and cash liquidity crunch in the interest of preventing their failure and a systemic risk of the financial sector, while at the same time, allowing them to continue to assume risks. Unless insurers can continue to have the capacity to assume risks, credit will not be supported by adequate risk transfer mechanisms and therefore the cost of money to the MSME sector and entrepreneurs will continue to be prohibitive.

⁸ <http://winner.ht/>

The positive results we are hoping for from the financial sector as part of the rebuilding efforts of Haiti can be counterproductive if they are not managed properly from the beginning.

As of today, the insurance industry is poorly regulated, opaque and only has to satisfy some fiscal aspects which are blocking its development.

There is an opportunity today to not only save the insurance industry, which is vital, but also to properly regulate and supervise it so it can be up to par with the region in terms of prudential norms and transparency, while setting the foundations that will promote its growth.

The support of the International community to the insurance industry will result in a win-win-win scenario where the Haitian government wins, civil society and private sector as a whole wins, and the International community wins.

Mister Chairman, Honorable Congressman,

In closing, I would like to once again thank you for giving me the opportunity to express my views on the role of the MSME sector and especially the insurance industry in the rebuilding effort for a more prosperous and wealthy nation. It would be a pleasure to answer any questions you may have.

Thank you

Mathias Pierre

President of GaMa Consulting s.a.

President of Foundation ETRE AYISYEN

April 28, 2010



ENTREPRENEURSHIP

ADVOCACY AND TESTIMONY

A TOOL FOR SUSTAINABLE DEVELOPMENT VIA AN INCLUSIVE « WIN/WIN » DEAL"

28/04/2010

Presented by Mathias Pierre

**MR. CHAIRMAN AND HONORABLE MEMBERS OF THE HOUSE SUBCOMMITTEE ON
INTERNATIONAL MONETARY POLICY AND TRADE,**

AN ENTREPRENEUR WHO STARTED FROM NOTHING

It is a pleasure and an honor for me to be here today in order to present my testimony and insight on entrepreneurship in Haiti. I will, at first, present what allows me to speak of entrepreneurship in my country. When I think of my own past experience, and my current involvement in my country's private sector, I believe that not only is it possible to change one's future but most importantly, I have learned that change can be learned. Though we are not conditioned to change by our origins, our social background or our wealth, to change it is instead necessary to define new ways to do things and I believe, as a cornerstone for rebuilding Haiti, we must instill a paradigm of change in the minds of Haitian youth.

Research and conclusions from Michael Fairbank's OTF Group will serve as a guide to understand the current reality faced by the entire Haitian private sector. Information obtained from these documents will allow us to understand the impact of the January 12, 2010 earthquake on the private sector and what this unprecedented event represents for all of those who would like to lead this country forward toward sustainable development both on the national and international level. Recommendations on the means and

perspectives to achieve sustainable development in Haiti are presented at the end of this document.

Though I do not come from a wealthy family I was nonetheless capable of establishing a level of financial performance by applying certain principles described in my book, « THE POWER OF A DREAM. » Today, I am the President and General Manager of GaMa Consulting S.A., beneficiary of the « role model » Pioneers of Prosperity Award over 500 competing companies in the Caribbean. I am also the Vice President of the Western Department Chamber of Commerce and Industry of Haiti, assistant treasurer of AMCHAM (American Haitian Chamber of Commerce), President of AHTIC (Haitian Association of Information and Communications Technologies), to name a few.

In North America, I would be considered a very active businessman. This would be viewed as an entirely normal situation when one takes into account the existing facilities, the structures, the business environment in the United States and Canada, and it would be understood that I could be so involved and able to produce results.

However, in Haiti this type of participation is mostly viewed as an exception to the rule, a relatively rare species. The absence of structures and institutions compounded with a culture based on survival, creating mental barriers makes he who frees himself of such obstacles an extraordinary person.

I am convinced that what I have accomplished is possible only because I actually did it. I believe that I can share my proven “know how” and I am

working through Foundation ETRE Ayisyen with more than 500 young university students to share that knowledge. My accomplishments? I would like to see them serve as models, inspiring symbols to those who decide to get involved in (the private sector?) sustainable development. I sincerely hope that, in a very near future, I will see the creation of two hundred small businesses similar to what I have built, built by entrepreneurs who can serve as a foundation for a new and better SME sector in Haiti

HAITI : MORE EMOTIONAL THAN RATIONAL

Haiti is a country where emotion and perception play an important role in the ways an individual acts, his attitude and behavior. Therefore, this is why those who succeed are perceived as drivers of growth, seemingly destined as depositories of wealth. Those who are deprived of means are perceived, and consider themselves to be incapable of participating to the growth process. Life is considered as a hostile heritage, and one must make enormous efforts to survive making it difficult to overcome the realities of one's origins and social status. Compared to the United States, where poor become rich (and rich become poor) in one generation, a typical Haitian's destiny is determined by his parent's status.

I had all the reasons to fail. However, in taking the less travelled road in Haiti, that of entrepreneurship, I have been able to refute this mental attitude unknown in developed countries like the United States or Canada, for example. I have proven by my experience that economic success can be achieved in learning new ways to do things in a specific manner which are applied by those who succeed. Better yet, I am also convinced that this attitude can be shared with those who desire to advance and adhere to a

positive vision to change their lives.

However, the Haitian reality is strongly modeled on a type of entrepreneurship: Entrepreneurship as a means of survival. Many undertake a small business activity. Habits are present; motivation is centered on a defensive attitude instead of being aggressive and pro-active. Entrepreneurship in its actual form is far from being a way to do business. Young people are trained to be employees in an environment where the unemployment rate is very high. When one takes the initiative to carry out some sort of business activity in a hostile situation, it is done without a long term vision and outside a true growth-driven entrepreneurial framework.

90% OF HAITI'S ECONOMY DEPENDS OF THE INFORMAL SECTOR

With the assistance of the OTF Group, the GTC (Competitiveness Group) report revealed that large formal companies in the private sector represent 5% of the Haitian economy, another 5% are formal SMEs and that informal MSMEs comprise 90% of the economy. Therefore, only 10% of the companies in the private sector contribute to the state's fiscal base. At the same time, 90% of the private sector's jobs come from the informal sector.

Today, large companies contribute 20% of earned revenues; MSMEs contribute 80% of earned revenues and are the largest employer. The informal sector is mostly composed of micro, small and medium businesses that do not have any assistance in terms of financial, fiscal and training tools. This sector relies on Micro Credit since the companies do not fulfill the traditional banks' requirements for financing.

Though the private sector has the capacity to be agile, rapidly

adapting to the economy, it is also very sensitive to timing. Private sector companies would rather appeal to a financial institution capable of financing its business on its timeline, despite a high rate of interest, rather than approaching an institution capable of offering a lesser rate with a longer lending process.

It took me close to 8 years to obtain credit. Even after 7 years working with my first bank, my company was still unable to obtain a good financing plan. I had to change banks three times in 3 years. Each of these transactions was costly and had a negative impact on my desire to obtain financial assistance through a bank. My negotiations, during the past 2 years, with the country's traditional banks have allowed me to have better loan conditions; this better conditions along have allowed me to double my turnover ... **Access to credit still remains impossible for the greater majority of MSMEs. This explains, for the most part, why today these MSMEs find themselves in the informal sector. ...**

12/01 : CONSEQUENCES AND OPPORTUNITIES

It is in this context that January 12, 2010 occurred, completely changing our business environment. Haiti's most important symbols have been destroyed and the country has been deeply hurt within at its core. The National Palace, the Palace of Justice, Parliament, the Palace of the Ministries, la Direction Générale des Impôts (Tax Office), the media, the financial system, trade, universities, schools and especially families are stunned by the extent of a devastation never experienced before and, that, today, we still have to understand.

The earthquake's aftermath offers an opportunity for a new beginning. This unfortunate event must be for us an opportunity to redefine the country. Plans for sustainable development, an inclusive approach with the active participation of young people in the definition of this new vision are necessary. We also need tangible achievements which can serve as inspiring models and allow each one of us to become an active participant in this mandatory reconstruction.

When considering the reconstruction challenge, one must take into account not only the reconstruction of the INDIVIDUAL BUSINESS but also the products from each INDIVIDUAL HAITIAN. Today, those who have survived this earthquake must adopt a new approach with actions that will fundamentally change the structure of the Haitian economy:

- **Increase the tax base by fostering the formalization of MSMEs;**
- **Encourage and assist in the development of the entrepreneurship culture in order to create jobs and wealth ;**
- **Create an intelligent and efficient injection of capital.**

These three elements serve as a guide when I think of the following issues: recovery of the national economy, and a reconstruction based on sustainable development with the active participation and involvement of Haitian youth.

According to a survey conducted by **USAID /WINNER**, losses in the SME sector amounted to \$ 1.2 billion and \$ 800 million amongst the micro businesses. This study counts 800,000 MSMEs, (200 000) of which are micro businesses registered on the financial institutions' databases, and only 60 000

of which benefit from the assistance of micro credit institutions.

INCREASE AND FORMALIZE THE SMMEs

These informal sector businesses, as stated above, do not pay their taxes, which represents an enormous loss in terms of state revenues. Should these companies resume their activities, this would be an ideal moment for them to become part of the formal sector and have access to credit in order to facilitate their participation in the country's economy.

This will be achieved in making available to the informal sector financing at a rate much lower than that offered today by micro credit institutions, which ranges from 2% to 5% per month or rates varying up to 60% per year. These rates actually available on the market depend on the type of loan and rapidity of the approval. The lower the amount and the faster the disbursement, the higher the rate.

In the formalization process, training is a must. Specific training aimed at establishing an entrepreneurial culture will allow the participant to become rapidly operative.

Assistance at the financial, fiscal and administrative levels will facilitate the transition from being an actor in the informal sector to becoming one in the formal sector as well as having ownership of standards internationally accepted in the global economy.

These businesses deprived of the means capable of allowing them to fulfill the banks' requirements will have to be "coached" in order to gradually learn how to work with the financial institutions.

A benefit of integrating the informal sector into the formal sector, would be to increase the state's tax base. Strengthening this segment of the private sector would increase state revenues, and thus, the latter's capacity to fulfill its major role towards the country's different institutions and by the same token towards the citizens.

Earlier, I mentioned that perceptions and impressions have a great influence on our daily lives. A major part of the Haitian businesses considers itself excluded from the country's private sector. One of the objectives of formalization is to change this perception. To make citizens more accountable and more demanding towards the state since they actively contribute to the increase of the fiscal base. As a result, a state more « responsive » to the needs of individuals because it collects more revenues and is subject to more specific and justified demands.

The consequences derived from formalizing the private sector's informal businesses are significant:

- **A new vision of the sector (more positive).**
- **An increase of the fiscal base making the state more independent.**
- **The emergence of proactive citizens.**
- **A more efficient and responsive state.**

Nonetheless, as a starting point it is important to note that the operating mode of businesses is strongly rooted in a survival attitude with very focus on a growth strategy. A period of survival (or fight against poverty) begins by acknowledging that one has become poorer with the decapitalization of one's businesses. The first attempt to remedy this situation is to seek assistance. This occurs with the development of a state of

assistance. This attitude creates a state of mistrust both nationally and internationally which is based on doubting of one's capacity to deliver. The fear of taking a risk because of the lack of trust creates, in the long term, poverty and the cycle is closed. Any business initiative, arising from this cycle, gravitates towards no risk at all, short term projects and no long term vision. There exist many commercial businesses that have emerged despite the system's weaknesses. There are much more commercial businesses than service institutions creating wealth: A trade-based economy instead of an economy based on production and job creation.

The private sector would like to break this vicious survival circle by establishing a healthy cycle which would replace foreign assistance with public/private investments. Investing in large infrastructure would reduce the cost of services and the cost of establishing MSMEs. By reducing start-up costs, it encourages their duplication. In increasing their number, we create an environment of trust and incentives to invest at all levels of the economy whether domestic or international. This is the way one advances towards wealth.

THE CHALLENGE OF FORMALIZATION

Formalization is a real challenge. It implies a reform of the fiscal and customs systems. The state currently collects only 35% of its revenues from taxes, duties and fees; the rest comes from external assistance. These 35% come from the large taxpayers (5% of the economy) and formal SMEs (5% of the economy) which renders the state very conservative and not inclined to take risks by reducing tax rate for SMEs.

The increase of the fiscal base becomes a necessity to motivate the State. Nevertheless, with the actual tax rates available on the market, it is still difficult to pay taxes and this remains a challenge above and beyond the complications of the badly managed tax system itself. One must address the issue intelligently to achieve an institutional reform that will take into account its different aspects.

STRENGTHEN MSMEs THROUGH ENTREPRENEURSHIP

The majority of Haiti's population is young. This situation must be considered when carrying out any major activity. According to the Haitian Institute of Statistics (IHSI) more than half of the country's population is less than twenty-one (21) years old. Those of less than fifteen (15) years of age represent 36,5 % of the population, the group aged 15 to 64 years represents 58,3 % while the population aged 65 and plus is only 5,1 %. It is also necessary to note that in urban areas there are 86 males for 100 females; and in the rural sections, 98 males for 100 females. A very young population with women having a slight advantage over men. It is imperative that anyone thinking about the future should target this segment of the population. This situation may offer a rather interesting opportunity since youth by its very nature is daring and willing to prove its capacities.

In its roadmap, the private sector hopes to create one million jobs in the next 5 years. Concerning certain sectors and more precisely the agricultural value chain, it is clear that job creation implies young entrepreneurs' participation, a group which represents 70% of Haiti's active

population.

It is also an opportunity for us to sensitize the citizens of Haiti that, since everything has to be rebuilt, it will be accomplished much more efficiently with the help of job creators rather than that of those seeking jobs. It will be necessary to assist those who are already entrepreneurs by providing them with practical training in order to make them feel more comfortable in a formal environment, and increase their revenues with access to credit.

A partnership with the young business population based on cost-effective activities should foster the spirit of entrepreneurship. Five possible activities to further this agenda are presented below:

- 1. Orientation of youth toward key sectors.**
- 2. Development of the country through personal growth and entrepreneurship.**
- 3. Revalorizing the sense of service and duty amongst Haitian youth.**
- 4. Promoting an alternative to foreign aid**
- 5. Building an awareness of the necessity to develop our country for everyone's benefit.**

The inclusion of a new agenda at the academic level will give a new impulse to the economy. The will to succeed through entrepreneurial activities taught in school will ensure a better understanding of the business world, will create a new generation of entrepreneurs, and will foster the emergence of success stories in business as a new trend. **Examples like mine will, at the beginning, serve as a model and will become normal in the Haitian private sector.**

It is mandatory to start by creating success stories among the youth in

order ensure the institutionalization of the entrepreneurial culture.

INTELLIGENT AND EFFICIENT INJECTION OF CAPITAL

Almost exclusively, the Haitian financial and credit institutions rely on guaranties given by small or large buildings. Today, these buildings have been destroyed and so are the guarantees. From the large company to the family owned business, many dreams have gone to dust... Investments in the real estate sector have been long perceived as the realization of a lifelong dream. At 4:53 p.m. on January 12th, all those dreams, these guarantees, all these symbols of one's successes were erased. It is an undeniably heavy mental blow for the nation's economy in its entirety. How can these families recover and regain the lost capital? How can one reintegrate in the economy, small businesses that took 10, 15 years to be established, now recuperate lost jobs and, create new ones?

A recovery plan has been undertaken for the large companies and formal businesses. This affords some sort of comfort to the financial sector and this is an important factor. However, it will also contribute to reactivating a system that, prior to the 12th of January, was already weak in terms of capacities and, therefore, inappropriate. This conservative system, inappropriate for the development of entrepreneurship, with a credit capacity of only \$ 800 million, meets only the needs of some large companies and a small percentage of the MSME sector. A risk exists for the informal sector that, in adapting itself to the formal business environment, it may disappear. It will then become a "survivor" trading in the informal sector and

institutionalizes the cycle of dependence on foreign aid ...

According to the USAID /WINNER survey, \$2.7 billion are needed for economic recovery for Haiti's private sector. Tangible activities must be undertaken that address the financial needs of the productive sectors that are today decapitalized. I believe that this could be achieved by adopting the following measures:

1. Provide capital to three currently under-served segments of the private sector:
 - a. **Establish an MSME support and assistance fund:** Inject, on an annual basis, capital in the micro enterprises and in the form of loans at very low rates. These funds will assist businesses in the financial training process and provide the means to formalize the sector.
 - b. **Establish a growth capital for small and medium businesses in the \$100,000 - \$1million size (larger than micro-enterprise, but smaller than big business)**
 - c. **Establish a fund for the development of entrepreneurship:** Make available to young entrepreneurs start-up funds for their businesses. Organize contests at the level of universities and technical training schools to obtain financial, fiscal and legal assistance.
2. **Foster an entrepreneurial culture:** Support and build, as soon as possible, the spirit of entrepreneurship in young Haitians. Entrepreneurship with the goal of building a better Haiti must be the dream of our youth.
3. **Provide the management skills required to succeed as entrepreneurs:** capital and the desire to become an entrepreneur are not sufficient to succeed in business. Aspiring entrepreneurs must also have the basic business skills required to conceive, build and operate competitive businesses. To deliver these skills, Haiti

must develop a robust Business Development Services (BDS) industry.

And, to start the process, it is necessary to have, in parallel, a support and follow-up system after these businesses have started. Finally, a more equitable banking system will help these companies become success stories.

A MATTER OF CHOICE: A BUSINESS SURVIVAL ISSUE

After several years of sacrifice and hard work, on April 8, 2008, during the hunger riots, my small SME that I was fighting to make viable and profitable was seriously damaged. I understood then that the private sector, through its most representative members, had a key role to play in social policy. Not only does the private sector creates jobs, pay dividends to its investors, and participate in state revenues, it wants to make its country more attractive to investors. And this very same private sector **has the corporate responsibility to take charge of the environment in which it operates.**

Haiti needs a responsible and participatory business elite and middle class. Through my personal experience, I am trying to duplicate the activities that I myself pursued , helping me build a successful company; by partnering with the youth, and vowing to see that within 2 or 3 years a critical mass of 200 « success stories » will be created throughout the country, I can model what a responsible private sector looks like. **At this moment, when everything must be rebuilt, I am taking this opportunity to be part of this reconstruction effort in order to leave a legacy to my country.**

Thank you



What (Not) to Expect of Microfinance in Haiti

Testimony for the House Financial Services Subcommittee on International Monetary Policy and Trade

David Roodman
Research Fellow, Center for Global Development
April 28, 2010

Thank you Chairman Meeks, Ranking Member Miller, and other members of the subcommittee. I appreciate the opportunity to appear before the subcommittee to discuss how the U.S. and international institutions can support the private sector in Haiti following January's earthquake.

My testimony here will have two main parts: a quick list of ideas on the challenging terrain faced in supporting Haiti's private sector; and a fuller discussion of what we should and should not expect of one popular intervention: microfinance.

Ideas for supporting Haiti's private sector

- *First, do no harm.* Some aid efforts, both public and private, have imported into Haiti goods and services that could be supplied locally, such as rice and IT consulting. Such practices stall the recovery of Haiti's farmers and entrepreneurs, and donors should halt them. As Center for Global Development president Nancy Birdsall testified on March 16, this may be a place where the Congress has become part of the problem, by imposing strict procurement rules on U.S. aid agencies. Put positively, this may also be a prime opportunity for Congress to help Haiti, by at least granting an experimental, Haiti-specific waiver for some rules.
- *Any strategy for supporting Haiti's private sector must recognize the great divide within it.* Perhaps half a dozen families, white and light-skinned, control much of Haiti's formal, legal private sector, the part most analogous to what Westerners envision as "the private sector." Meanwhile, the vast majority of Haitians get by in informal economic activities such as farming and petty trading. Though the fates of the two economic groups are intertwined, efforts to help one should not be equated with efforts to help the other. We should not underestimate the challenge of breaking down the barrier, nor confuse it with efforts to meet the short-term survival needs of the majority.
- *While outsiders strive to "build back better," locals will start to build back the same.* For example, Haitians will begin to rebuild their slum dwellings in the traditional patterns—if they haven't already. This argues for giving cash to Haitians in order to empower them in the process of recovery and stimulate the private sector.

I don't mean to draw a black-and-white distinction here: no part of Haiti will be built back quite the same. Post-quake Haiti will blend pre-quake Haiti and new influences. The point is that, even knowing they will often build back the same, we should trust Haitian people as least as much as we trust Haitian and foreign government agencies when it comes to engineering efforts to recover. Individual Haitians are generally better placed than we are to know and meet their needs. And the U.S. government has sometimes failed when it tried to "build back better." After the Managua earthquake of Christmas 1972, USAID built rows of earthquake-resistant huts far from centers of economic activity. Instead of the people coming to the new homes, the homes came (piece by piece while guards looked askance) to the people—that is, to where the people had lived and would continue to live.¹ History is repeating itself in Port-au-Prince as we speak, though whether the U.S. is involved this time I do not know.²

Thus for the sake of recovery—and recovery that leverages Haiti's private sector—there may be a role for direct delivery of cash to Haitians. They will use the money as they see fit, spending it on food and building materials, stimulating the private sector. The results will not be ideal, but neither are those of donor-run projects. (Calls for a Marshall Plan for Haiti are ironic in this light since the original Marshall Plan succeeded by largely helping Europe build back the same.)

- *The cash-based strategy of helping Haitians help themselves faces several challenges. One is the capacity of the damaged Haitian economy to supply what Haitians would demand (in the economic sense) with that money.* USAID has done some excellent "market mapping" to identify bottlenecks—such as lack of small-scale warehousing—that could obstruct flows of rice, beans, and corrugated iron sheeting.³ This analysis is pointing to high-leverage opportunities to rejuvenate the economy. And by identifying what the private sector can and cannot supply, it is providing crucial guidance for "doing no harm" in the sense above.
- *Another big challenge to cash delivery is...cash delivery. Several options for disseminating purchasing power should be considered. One is traditional cash-for-work programs; some are underway now. Another involves piggybacking on two formal systems that reach large numbers of Haitians: remittance flows and mobile phones.*

A third of Haitian families reportedly rely on money from members living abroad (remittances). 70–90% of families have access to mobile phones, with numbers at the higher end in worst-affected Port-au-Prince. Perhaps "top-ups" could be tacked on to those remittances through Western Union and MoneyGram. Or if mobile phones could be turned into small savings accounts, as happened most famously in Kenya, donors could with a stroke of the pen increase the balance of every Haitian

¹ Story from Stuart Rutherford, author of *The Poor and their Money*, and an ActionAid employee in Nicaragua after the quake there.

² Carrie Kahn, Poor Planning Mars Haiti's Efforts to Move Survivors, *All Things Considered*, April 19, 2010, <http://www.npr.org/templates/story/story.php?storyId=126025145>.

³ "Note from Haiti: Improving Relief Efforts through Market Mapping," April 7, 2010, http://www.microlinks.org/ev_en.php?ID=43044_201&ID2=DO_TOPIC.

with a phone number.

What (Not) to Expect of Microfinance in Haiti

Nowadays it is impossible to talk about supporting the private sector in poor countries without talking about microfinance. Recently, I have been writing a book and maintaining a blog dedicated to clear-eyed analysis of the impacts of microfinance. A colleague recently paid me what I consider a high compliment: he called my work critical but not cynical. I will explain both those adjectives.

Why I am not cynical

A couple of years ago I spent a good deal of time scrutinizing what was then the leading academic study of the impacts of *microcredit*.⁴ To decide whether I believed the conclusion that microcredit in Bangladesh had helped families, especially when the loans were made to women, I decided to *replicate* the study, applying the original statistical methods to the original data. The math and computer programming were really complex. In time, with my coauthor Jonathan Morduch, I would conclude that the study does not stack up. We're not saying microcredit doesn't help people, just that you cannot judge the matter with the data in this study.⁵

Now, during this project I visited several microfinance programs, including two supported by USAID in Egypt. I will never forget the scene I witnessed in one of Cairo's poorest neighborhoods. Hundreds of women had thronged to a microcredit bank branch to get their new loans. Most had just repaid old ones. The crowd—the women and their children—jammed the lobby and overflowed into the hallway and staircase beyond, and down onto the street. They waited hours. I thought, “Should I tell these women that on my laptop back at the hotel, I had been crunching numbers that suggested that ‘we’ are not actually sure if microcredit is such a good thing?” Of course not! Who was I to tell them how to live?

I reflected on this paradox, this conflict between the uncertainty of the research and the vitality of the scene. I took *both* seriously. I realized that several different ideas of “success” are in the air when people talk about whether microfinance “works.” Microfinance does better by some of these definitions than others. This realization is the heart of my book.⁶

Why I am critical: Evidence lacking that microcredit reduces poverty

We have all heard microcredit success stories—about the woman who uses a loan to start a small business making clothes or selling vegetables, about how she expands the business, hires people, and gives her children a better life. There are many such stories, and I assume many are true.

But while there is some persuasive evidence that microfinance stimulates microenterprise, *we have little solid evidence that microcredit, the dominant form of microfinance, reduces poverty.*

⁴ Mark M. Pitt and Shahidur R. Khandker. The Impact of Group-Based Credit on Poor Households in Bangladesh: Does the Gender of Participants Matter? *Journal of Political Economy* 106(5): 958–96, 1998.

⁵ David Roodman and Jonathan Morduch, The Impact of Microcredit on the Poor in Bangladesh: Revisiting the Evidence, Working Paper 174, Center for Global Development, June 2009.

⁶ Draft chapters are on David Roodman's Open Book Microfinance Blog, http://blogs.cgdev.org/open_book.

That is a strong statement. Why am I convinced of it?

- *There are “failure stories” too in microfinance.* In late 2007, for example, *BusinessWeek* told the story of Eva Yanet Hernández Caballero in Mexico, who got in over her head with high-priced microcredit.⁷ Anthropologists who have spent time in villages in Bangladesh have told of women whose pots and pans or tin roofs were taken by their neighbors and sold in order to repay loans for which the neighbors would otherwise have been liable.⁸ We know that in the United States loans are sometimes a boon—responsible mortgages, college loans—and sometimes a bust. We should not be surprised that the same is true for microcredit.
- *It is extremely hard to determine cause and effect in households, villages, and slums.* The challenge of research is to sort through the diverse stories of failure and success, find patterns, and infer causal connections. But if I show you a successful microcredit borrower with plump children and a non-borrower unable to feed her children every day, you can imagine many ways to explain that pattern. Maybe microcredit really made the difference for the first woman. Or maybe she was better off to begin with, and felt more comfortable borrowing. Or maybe she lives in the less-poor neighborhood that has attracted microcreditors. It is really hard even with fancy statistics to rule out all the stories except for the one we want to hear, about microcredit reducing poverty.

By far the most credible way to pin down cause and effect is to *randomize*, just as is done in the best drug trials in order to determine whether it is safe to put new pills in our bodies. If people who were randomly offered microfinance do better than those who were not, that’s compelling evidence that microfinance helps. The first randomized studies of microfinance came out last year. The two of *microcredit* found no impact after 15–18 months on poverty indicators such as household spending and income, number of children in school, etc. But a small study of *microsavings* for market vendors in Kenya did find such benefits—among women.

This muted verdict is a far cry from the popular perception of microcredit, and, I think, the perceptions that have shaped lawmaking in the Congress.⁹

Help microfinance play to its strengths

Still, while microfinance does not live up to the hype, it has scored some impressive achievements by the standards of foreign aid. The job of those supporting microfinance, including the Congress, is to stop imposing unrealistic expectations on microfinance, and *help microfinance play to its strengths*. I would list two strengths:

- *An ability to build thriving, dynamic institutions.* The famous Grameen Bank in Bangladesh employs

⁷ “Compartamos: From Nonprofit to Profit,” *BusinessWeek*, December 13, 2007, http://www.businessweek.com/magazine/content/07_52/b4064045919628.htm.

⁸ E.g., Aminur Rahman, Micro-credit Initiatives for Equitable and Sustainable Development: Who Pays? *World Development* 27(1): 67–82, 1997; Lamia Karim, Demystifying Micro-Credit: The Grameen Bank, NGOs, and Neoliberalism in Bangladesh. *Cultural Dynamics* 20(5): 5–29, 2008.

⁹ From Public Law 108–484, “Microenterprise Results and Accountability Act of 2004”: “Microenterprise programs have been successful and should continue to empower vulnerable women in the developing world.”

- *The ability of such institutions to give millions of poor people more control over their financial destinies.* An excellent book, *Portfolios of the Poor*, points out that if you live on \$2/day, you don't live on \$2/day. You live on \$3 one day, 50 cents the next, \$2 the day after. With incomes so volatile, poor people actually need financial services *more* than we do, so they can safely put aside money on good days, or in good seasons, and draw it down in bad. Microfinance, including credit, savings, and insurance, can give people an increment of leverage over their financial circumstances—not to escape poverty, but to manage it better. The services are more interchangeable than is often realized: to pay a doctor, you can draw down savings, take a loan, or, if you're lucky, use insurance. However, among financial services, credit is not necessarily the best way to give people control over their circumstances because sometimes it does the opposite. In contrast, it is hard to imagine someone getting in trouble by *saving* too much.

For me, a compelling but achievable ideal for the microfinance project is of a growing collection of *microbanks*, thriving businesses that deemphasize credit in favor of savings. Living examples include microcreditors in Bangladesh and Indonesia, and some in which USAID has had a hand, as in Bolivia.

But a caution: The enthusiastic investment in microfinance from public and private players, billions of dollars per year, is mostly going into *microcredit*, and so to an extent is undermining the strengths of microfinance. It is causing some microfinance institutions to grow too fast, creating bubbles (a few popped last year¹⁰) and damaging microfinance institutions. Easy money is also dulling the impulse to do microsavings. Why should a microfinance institution go through the trouble of administering thousands or millions of small savings accounts, or lobbying for the right to do so, when easy money is on offer from the World Bank? I have argued that we need an international information-sharing mechanism such as credit bureau on *microcreditors* to track their borrowings and begin to institutionalize the idea that there is such as thing as too much credit for microcredit.¹¹

Realistic Expectations of Microfinance in Haiti

Haiti has a vibrant microfinance industry. Leading institutions such as SFF and Fonkoze, actually have more savers than borrowers.¹² They appear to be good examples of microfinance playing to its strengths. American donors, public and private, deserve credit for that.

But microfinance is unlikely to fundamentally recast Haiti's private sector. It may well stimulate microenterprises, but these are by and large subsistence activities—selling vegetables, trading iron

¹⁰ Greg Chen, Stephen Rasmussen, and Xavier Reille. Growth and Vulnerabilities in Microfinance. Focus Note 61. Washington, DC: CGAP, 2010.

¹¹ http://blogs.cgdev.org/open_book/2010/03/we-need-a-public-credit-bureau-for-microcreditors.php.

¹² MixMarket, <http://www.mixmarket.org/mfi/fonkoze/data/products-clients>, <http://www.mixmarket.org/mfi/sff/data/products-clients>.

sheeting—that operate informally, below the radar of the tax man. Microfinance helps people deal with their circumstances more than rise above them.

Moreover, even counting all these savers, microfinance institutions in Haiti only reach perhaps 250,000 people, about 2.5% of the population. No doubt this number reflects years of dedication and hard work by many people. No doubt it will grow. Still, penetration will remain low for years.

So if the goal is to deliver aid to the majority of quake victims, I would not look to microfinance alone. Mobile phones and remittance networks have far more universal reach, and perhaps can be exploited to spread aid wide and fast. And I would warn against proposals (if there are any) to rapidly scale up microcredit. That could inflate a credit bubble. And it could undermine the admirable discipline of Haitian microfinance groups in taking savings.

Nevertheless, I would endorse efforts to support Haiti's microfinance institutions through this hard time. We should not let the perfect be the enemy of the good—the good in this case being assistance that helps hundreds of thousands of poor people cope with circumstances no one should have to experience. Fortunately, such efforts are already underway. They may in time include recapitalizing the institutions; assisting with transportation of cash; and supplying demand-driven technical advice, including from employees at microfinance institutions that have survived disasters in other countries.

Conclusions

To close, I highlight four priorities for supporting Haiti's private sector:

- Protect the vitality of Haiti's microfinance institutions, in part by *not* drowning them with finance that must be shoveled out the door as microloans.
- Give USAID and other agencies the flexibility to analyze and adapt to the strengths and weaknesses of the Haitian economy, procuring locally when possible, eliminating bottlenecks where possible, delivering in kind where necessary.
- To help Haitians help themselves (through the private sector), seek innovative approaches to cash delivery that exploit the money transfer and mobile phone networks, whose combined reach is vast.
- What Haitians want most is *jobs*; the best ways we have of generating those are buying more of what workers in Haiti make and allowing more Haitians to come to the United States to work.

**Testimony by
John Sanbrailo
Executive Director
Pan American Development Foundation (PADF)
before
The Committee on Financial Services
Subcommittee on International Monetary Policy and Trade**

**Hearing on:
Promoting Small and Micro Enterprises in Haiti
Wednesday, April 28, 2010**

On behalf of the Pan American Development Foundation, I thank Subcommittee Chairman Gregory Meeks, Ranking Member Gary Miller and other members for the opportunity to testify on Haiti in the aftermath of the devastating earthquake of January 12 and the importance of promoting Haitian small and micro-enterprises.

Before beginning I would like to recognize the exceptional leadership of Congressman Meeks in supporting Plan Colombia and ensuring that it addressed the urgent needs of Afro-Colombians and other vulnerable groups. Our Foundation greatly appreciates the number of field visits that you have made to PADF projects in Colombia that are visibly helping to increase the incomes and standard of living of thousands of disadvantaged people who have been overlooked by past programs.

For nearly 30 years, PADF has been involved in projects that generate employment, promote community-driven development, improve rural and urban livelihoods and protect human rights, as well as disaster relief, recovery and reconstruction. We have worked with the Haitian people and civil society to implement agro-forestry projects, to introduce new soil conservation techniques, to strengthen local organizations and to facilitate conflict management and development along the Haiti-Dominican Republic border. Haiti is one of our highest priority countries.

PADF is an affiliate of the Organization of American States established in 1962 to encourage involvement of the private sector in development programs and disaster assistance. In 2009 we helped more than 5.6 million people in 18 countries in Latin America and the Caribbean. Starting in the 1960s, the Foundation pioneered some of the first modern micro-enterprise programs and provided capital and technical assistances to establish national foundations to stimulate their growth and expansion.

Prior to joining PADF, I was a Senior Foreign Service Officer with the U.S. Agency for International Development (USAID), serving as Mission Director in Ecuador, Peru, Honduras and El Salvador. I led the development of numerous small and micro-enterprise programs, especially following major natural disasters. As a result, I am particularly aware of the many questions that this Subcommittee may have regarding Haiti, as well as the challenges USAID, international agencies and the NGO community confront as they respond to the most urgent needs, while simultaneously supporting longer-term sustainable economic and social development.

Based on PADF's longstanding work in Haiti, and my 40 years of international development experience, I would like to share with you some thoughts about lessons learned in promoting small and micro-enterprises. I base them on my service in a number of countries, but especially El Salvador that suffered widespread destruction from a protracted civil war and major earthquakes in 1986, and again in 2001, that seriously impacted its capital city of San Salvador. Because of highly effective Salvadorian leadership, coupled with strong consistent support from the U.S. Congress and USAID, El Salvador was able to rapidly recover and use these tragedies to not only "rebuild better" but to implement major economic and social reforms. El Salvador has important lessons for Haiti, especially in using small and micro-enterprises to democratize its economy, create new jobs and expand popular participation.

I might also add that in prior decades USAID and others supported programs that are particularly relevant in guiding assistance to Haiti's reconstruction, especially for developing small and micro-enterprises. They include initiatives in Central America as well as efforts to support the Dominican Republic's development in the 1960s and 1970s. I urge the Subcommittee to collect

and analyze the important lessons learned from past programs for possible application in Haiti. I will draw upon some of them in my testimony.

Before that, however, I would like to highlight the excellent initiative by the Haitian Private Sector Economic Forum (PSEF) led by Dr. Reginald Boulos, in articulating a vision and roadmap for Haiti's earthquake recovery and reconstruction. I am attaching Dr. Boulos' presentation at the recent Haiti Donor's Conference in New York City and the PSEF document. They provide an important framework for supporting small and micro enterprises and well targeted initiatives to develop entrepreneurship with seed capital and management assistance.

As this Subcommittee knows, small and medium-sized businesses are the engines of job creation and innovation in most countries, including the United States. Prior to the January 12th earthquake, small and micro-enterprises accounted for as much as 90 percent of Haitian employment and 70 -80 percent of the economy.

Nevertheless, this engine of growth has been constrained by decades of political instability and an inability to address numerous policy and institutional weaknesses that have caused arrested development and widespread expansion of the informal sector. As Dr. Boulos indicated to the international donors, any strategy to reactivate the Haitian economy must be built on a vision of creating a large middle class that improves its competitiveness through "the progressive formalization of micro, small and medium enterprises to transform the employment and tax base of the country". He goes on to describe the extreme poverty and lack of capital of most Haitian enterprises that have been made even more dire by the earthquake.

The PSEF stresses that Haiti's path to rebuilding must include financing for small and medium enterprises as key incubators of growth and employment. Indeed, the Forum cites studies that estimate a need for up to \$2 billion in financing and provides specific recommendations for Haitian reconstruction.

The Pan American Development Foundation is particularly fortunate that Dr. Reginald Boulos is one of its Trustees, along with other Haitian business leaders such as PADF Vice President,

Philippe Armand, and Trustee Gladys Coupet, a leading banker in Port-au-Prince. They provide our Foundation with valuable inputs on measures that can be taken to encourage small businesses and micro and community enterprises.

As a complement to the work done by the Haitian public and private sectors, allow me to summarize additional issues that the Subcommittee may wish to consider in formulating a comprehensive effort to encourage small and micro-enterprises. They are:

- **Recognize the Overriding Importance of Political Leadership & Stability:** In promoting small and micro-enterprises, or any businesses for that matter, the overriding importance of a stable business climate, with well-defined rules of the game, cannot be underestimated. The Haitian people are renowned for their resiliency, creativity, imagination and entrepreneurship. No one can travel in Haiti and not be amazed at how quickly micro and small businesses have re-established themselves after the worst disaster in the history of our hemisphere, including repeated hurricanes and civil strife that would challenge even the most enterprising individuals anywhere in the world.

While much of the private sector in Port-au-Prince and surrounding areas has been seriously disrupted and de-capitalized by the earthquake—and large infusions of well-targeted funding are urgently needed—we should be encouraged by the enterprising nature of Haitians and the potential economic and employment growth that can be generated if political leaders address the most critical stabilization and reform measures. As has been so often stated, it will be Haitian leaders who determine the country's destiny. The recent reconstruction plans produced by both the public and private sectors are excellent first steps and should be used by international donors in formulating new initiatives.

- **Encourage Sound Macro-Economic & Regulatory Reforms:** While much of the discussion on promoting small and micro-enterprises often focus on innovative mechanisms for providing credit, guarantees, technical assistance and training, these inputs should be seen as necessary but not sufficient by themselves. Enterprises cannot flourish in a policy and regulatory environment that discourage investment, restrict property ownership, lack

In his regard, I direct the Subcommittee's attention to an IMF Working Paper titled, "The Growth in the Dominican Republic and Haiti: Why has the Grass Been Greener on One Side of Hispaniola?" (2007) by Laura Jaramillo and Cemile Sancak. It shows that in 1960 both countries had the same per capita GDP. During the past 50 years the Dominican Republic's per capita GDP more than tripled whereas Haiti's remained stagnant. The authors of this paper conclude that despite the similarities of these countries, economic policy decisions are the key determinants explaining their growth divergence.

In my career, some of the most effective technical assistance for improving macroeconomic policies has been provided by leading economists from Chile. As you move forward with your deliberations, I urge that successful experiences implementing market-based policy and regulatory reforms, such as in Chile, the Dominican Republic, El Salvador and Peru, be examined for application in Haiti. They have had a proven track record of accelerating sustainable and equitable economic growth that is essential for nurturing small and micro-enterprises.

- **Promote Property Ownership:** Most small and micro-enterprises in Haiti operate in the informal sector, which seriously limits their growth and employment potential, encourage tax evasion and corruption. Likewise, much of the housing in Port-au-Prince and other urban areas are built on public lands and do not have property titles, discouraging mortgage financing and home improvements that are so important in other countries. As has been well documented in a number of studies, including the USAID-funded work in Haiti of Hernando De Soto in the late 1990s, lack of property ownership remains a major constraint to investment and to sound development of small and micro-enterprises and homeownership.

- **Expand Successful Models such as Community-Driven Development:** In discussing Haiti there is an unfortunate tendency among some to believe that most prior development efforts in that country have failed and that the international community must start again with a blank slate. This would be an error. While there have been failures in the past, we should not allow the shock and trauma of the earthquake to blind us to a number of ongoing successes that can quickly be scaled-up to produce immediate results.

In this regard, I would like to highlight the Haitian government's successful Community-Driven Development program, funded by the World Bank, implemented by the Pan American Development Foundation and others in partnership with the Haitian Bureau of Monetization. PADF has obtained important support for it from both the Haitian and international private sector, including corporate donors such as Royal Caribbean International. This program has created more than 500 productive community enterprises in some of the poorest and most unstable areas of Haiti. It has rapidly generated new production and employment, promoted entrepreneurship, provided residents with business training and built social capital that is indispensable for nurturing a market economy and a more stable democracy. It can quickly be expanded to reach an even larger population, addressing some of the most immediate employment disruptions caused by the earthquake.

At the same time, we should recognize that there is not one preferred mechanism for promoting small, micro and community enterprises. For a country as complex and challenging as Haiti, multiple implementing mechanisms should be considered. Organizations like FONKOZE, called "the Alternative Bank for the Organized Poor", and other local and international NGOs, provide important financing mechanisms for micro and small business enterprises that can be quickly expanded.

Measures should also be undertaken to further encourage private banks to expand their lending to small and micro-enterprises, as Sogebank has been doing through its SOGESOL offices, and Unibank, through its Micro-Credit National (MCN), and other similar actions. The proposal to create a Haitian Enterprise Development Fund, similar to those implemented in Eastern Europe, merits serious consideration. The OAS Young Americas Business Trust is also providing important training for young Haitian entrepreneurs.

Local think-tanks, civil society associations, and business incubators should also be encouraged to continue their work in the promotion of micro, small and medium businesses as part of the economic recovery process. Groups like the Center for Free Enterprise and Democracy (CLED), the Haitian Manufacturers Association, the Haitian-American Chamber of Commerce (AmCham) have done work in these areas that could be built upon and expanded.

Experience from other countries show that there are multiple public and private instruments for promoting small and micro-enterprises—it cannot be done by any one instrument alone. To be effective, there should be an overall strategy that brings them together in a coherent, systematic, coordinated fashion to avoid duplication and needless institutional rivalries.

In examining such proposals, it is not productive for any group to demonize the public, private or nonprofit sectors. Our Foundation has developed a successful model for bringing together the Haitian government, the private sector and local NGOs and community groups. We believe that it is a proven mechanism for building public sector capacity while quickly addressing the most urgent local needs and longer-term development.

- **Recognize the Importance of Remittances and Diaspora Engagement:** Last year, Haiti received more than \$1.6 billion in remittances from Haitians living abroad. It is estimated that during this decade Haiti will receive at least \$20 billion, which is more than twice as much as the total damages caused by the earthquake. More housing will be repaired and rebuilt with remittances than with international aid. Many businesses will be developed with remittances and thousands of Haitian families will educate their children and improve their

Unfortunately, only a small percentage is used for investments, while most remittances go to sustain daily consumption. International agencies should be creative in supporting activities that encourage remittance senders and recipients to invest in their futures through market-based incentives. We urge the Subcommittee to support Diaspora engagement and consider how the growing flow of remittances to Haiti can better promote small and micro-enterprises. Our Foundation would welcome participating in such discussions since we have pioneered community remittance programs with Diaspora groups, including Haitians.

- **Engage the Private Sector as Partners:** As the above examples indicate, the Haitian government and international community should work closely with the Haitian private sector, including Haitians living abroad, as well as foreign investors and not-for-profit organizations.

It is particularly encouraging that the recent donors meeting for the first time invited private sector representatives like Dr. Boulos and representative from the Diaspora community into formal presentations and discussions. As in other countries confronting similar circumstances, these groups can play a key leadership role in promoting small and micro-enterprises.

In addition, there are a number of significant opportunities to work with foreign investors such as Royal Caribbean International that is interested in helping Haiti develop the tourism potential of its north coast. To make this happen, however, the Haitian government, with the support of international donors, need to modernize and repair roads, bridges and other key infrastructure and involve local communities in the planning and implementation of them. These investments have tremendous potential to stimulate hundreds of new small and micro-enterprises. There are excellent examples of how public-private partnerships can be used to promote small and micro-enterprises.

I also want to recognize Congressman Meeks for his leadership in promoting the HOPE legislation that is so important for future growth and employment in Haiti. This initiative can play a key role in stimulating major new investments by foreign and local companies in the garment and *maquiladora* industry that can rapidly create thousands of new jobs. Much of this industry, which began to emerge in the 1980s, was forced to leave Haiti because of the civil strife and insecurity during the 1990s and 2000s. Experiences from the Dominican Republic, Honduras, El Salvador and other countries demonstrate that such industries can stimulate many small businesses and micro-enterprises.

National and international NGOs are playing important roles in providing relief to millions of earthquake victims and should continue to be an essential part in the country's reconstruction and development. Clearly their actions should be undertaken in partnership with the Haitian government in order to enhance its institutional capabilities. While all parties should recognize that only the government can improve the country's overall policy-regulatory environment, and facilitate key enabling infrastructure, it is the private sector that must play an indispensable role in providing essential investments for Haiti's long-term reconstruction and sustained development.

Mr. Chairman, although the earthquake caused massive suffering, and large segments of the population continue to live in unacceptable conditions, the international community has an opportunity to come together with Haitian leaders and communities to build a stronger and better Haiti. All of those of goodwill—especially Haitian public and private sector leaders—must seize this unique moment not just to rebuild what has been lost, but to construct a more equitable and prosperous Haiti.

As I indicated, there are proven models being implemented in Haiti and in other countries that can quickly be expanded and replicated to address this unprecedented crisis. They offer the most effective way to benefit the largest number of Haitians in the fastest way possible, especially through small and micro-enterprises.

Fifty years ago the Dominican Republic was also impacted by political instability and civil strife. It was able to turn a crisis into an opportunity to build a much stronger and more democratic society through effective leadership and policy reforms. Likewise, a century ago, Puerto Rico was one of the least developed islands in the Caribbean and now it has the highest per capita income in the region. With strong national leadership and international support, Haiti too can realize similar progress.

As I conclude, I would like to recall that in 1776, when Adam Smith published his revolutionary work, *The Wealth of Nations*, Haiti was the richest country in the Western Hemisphere. In the 21st century, Haiti does not have to remain the poorest country in our region.

Thank you,

Attachments

- **Vision & Roadmap for Haiti**, presentation to the Government of Haiti by Dr. Reginald Boulos, March 23, 2010
- **Vision and Roadmap for Haiti**, prepared by Haiti's Private Sector Economic Forum, March 23, 2010
- **IMF Working Paper: "Growth in the Dominican Republic and Haiti: Why has the Grass Been Greener on One Side of Hispaniola?"** March 2007

Vision & Roadmap for Haiti

*Presented
by
Dr. Reginald Boulos
to the
Government of Haiti
at the
Private Sector Economic Forum
March 23, 2010*

Monsieur le Président de la République,
Madame la Gouverneure Générale du Canada,
Monsieur le Secrétaire général des Nations Unies,
Madame la Secrétaire d'Etat Hillary Clinton,
Monsieur le Président Clinton,
Mesdames et Messieurs les Ministres et Ambassadeurs,
Mesdames et Messieurs.

For the first time in the history of donor's conference for Haiti, the voices of several sectors in the country are being heard and I wish to congratulate the organizers for this initiative.

For the first time also in the history of Haiti, a unified and inclusive private sector, organized around the Private Sector Economic Forum (PSEF), has decided to break with the past and formulate a shared vision and roadmap for the sustainable development of Haiti.

For the majority of stakeholders in Haiti, the country's private sector is defined mainly by a few large companies. This analysis is problematic on 3 levels. First, it ignores the key role played by small and medium enterprises, mostly women, as an engine of innovation and job creation. Secondly, it overlooks the investment made over the last 15 years by international investors, such as Trilogy, Digicel, Coca Cola, Royal Caribbean Cruise and others. Finally, its exclusive nature creates a tension with regard to improvements in business climate, as most believe that this kind of initiative only favors a few companies, not society as a whole.

SMEs account for 80-90 % of jobs creation in Haiti and account for 70-80 % of the economy. Therefore, an element of the competitiveness agenda in Haiti must be the progressive formalization of micro, small and medium enterprises to transform the structure of employment and tax base of the country. *The situation of the Haitian private sector is akin to bankruptcy at the top and poverty at the bottom.* 63% of SMEs interviewed suggest that their profits have declined over the past three years based on the survey of over 300 SMEs. Although overall economic conditions are a factor, informality also plays a role.

A recent study by the Winner group suggest that while the total needs for financing of the business community exceed the 2.7 billion mark, 75 % of these needs i.e. 2 billion are for MSMEs. There is

therefore an urgent need for recapitalization with a blending of loans and grants to the informal sector with the needed education, technical assistance and training to transform them into a formal structure creating jobs, spurring entrepreneurial spirit, generating tax revenues for the state and profit for its owners.

We are submitting today 4 Proposals to promote economic inclusion:

1. **Allocate at least 50% of all funds and guarantees to formal SME and micro-enterprise financing**
2. **Encourage broad ownership of larger companies** by (a) converting grants and investments into employee equity and profit sharing, with a minimum 5% set-aside (b) offer equity shares to the public
3. **Implement SME and MSME set asides**, especially in the housing and construction sectors to be able to actively participate in Haiti's reconstruction
4. **Support new entrepreneurs with seed capital and management assistance** to unleash entrepreneurship through the creation of (a) quasi-risk capital investment funds, (b) a Diaspora investment fund, (c) incubators and (d) business development services centers

Our vision for the country includes at its core an expansion of the middle class, which can only be done through the creation of tens of thousands of small and medium enterprises motivated by an entrepreneurial spirit and benefiting from access to credit and the elimination of barriers to their expansion. Any vision of a prosperous Haiti rests on an economy able to provide jobs, create wealth, and ensure social security for all Haitians. But the Haitian economy must also be:

Diversified.

Green.

Competitive.

Vibrant.

Regionally integrated.

By 2020, we commit to making Haiti a diversified and robust economy open to all, and renowned for its environmental sustainability and modern government.

Five priority principles must guide all actions and decisions during reconstruction:

Leadership and mutual accountability;

Decentralization and equal growth;

Commitment to modernization;

Haitian-led effort;

Independence from international aid;

Achieving this social and economic growth requires a multitude of investments, both in terms of financial and human capital. Five areas in particular deserve significant attention:

JOBS AND SHARED ECONOMIC OPPORTUNITY:

In the near-term, the construction of housing and infrastructure will create hundreds of thousands of jobs for Haitians, but Haiti's long-term economic prosperity must rely on building a productive agriculture and a skills-based economy in globally competitive sectors.

AGRICULTURE AND THE ENVIRONMENT:

Developing this sector offers the opportunity for shared growth and wealth creation across Haiti. It is also necessary from a food security perspective.

HEALTH AND EDUCATION:

Rebuilding the country is dependent on not only providing immediate health services to earthquake victims, but creating a strong national healthcare system that can ensure a healthy population.

HOUSING AND ECONOMIC SECURITY:

It is of the utmost urgency to move Haitians into permanent housing, in order to prevent the creation of slums with abject living conditions. Creating permanent housing is not just providing shelter but creating an asset that leads directly to the creation of a long-term middle class upon which this vision rests.

GOVERNANCE AND INSTITUTIONAL CAPACITY:

Successful and effective reconstruction will require the legitimacy and support of the people. More broadly, it will require a well-functioning civil society and set of institutions.

Building back a better Haiti will require significant investment in infrastructure. The core of this infrastructure investment should be allocated to building the three new Economic Growth Poles in addition to rebuilding and reviving Port-Au-Prince.

NORTH POLE:

Forming a triangle between Labadie, Ouanaminthe and Port-au-Prince, the Northern Economic Growth Pole will focus on Agriculture, Tourism and Garments, create more than 100,000 jobs. Investment required is estimated at over \$1.8B.

CENTRAL POLE:

Investment required is estimated at over \$300m. Successful agricultural development in this area can ensure that the fertile lands of the Artibonite achieve their potential yields in production of staple crops such as rice, maize and potatoes, and improve rural livelihoods.

SOUTH POLE:

The Southern Economic Growth Pole centered around Les Cayes and will support Agriculture, Tourism and Garments. There is the potential to create more than 50,000 jobs and the initial investment is estimated at over \$1.1B to \$1.4B (depending on transshipment port)

To spur private investment and job creation, 1.24 Bn investment in infrastructure is required. This is can be public investment or on a PPP model including managed infrastructure or concessions. This should include but not limited to:

- 2 Airports in Port au Prince and Cap Haitian and the upgrading of Cayes airport;
- 3 new industrial Parks;
- 300 kms of New Paved Roads
- 100 Kms of New Secondary road System
- 2 New energy plants;
- Upgrade or build 3 new ports

Please note that these does not include the social investment in housing, schools and health infrastructures that will be needed to make these pole successful and make the decentralization a reality.

Ladies and Gentlemen,

The devastation wrought in Haiti by the January 12, 2010 earthquake is monumental. However, even before the earthquake, the infusion of billions of dollars of foreign aid over recent years had put Haiti into a “Survival Cycle” where the country is unable to support itself and provide core services to, or economic opportunities for, its people. The challenge for Haiti is to use the reconstruction process to break the Survival Cycle by creating a virtuous cycle of private investment and public-private partnership.

To succeed, we Haitians must form a New Social Compact:

1. The Creation of a large middle class, fulfilling the dream of a better quality of life
2. A responsible elite laying out and implementing a vision of development that benefits all Haitians
3. A business community which fulfill their fiscal obligations, has developed a sense of social responsibility and understand that their main JOB is to create jobs
4. A strong moral leadership with a new culture of responsibility and accountability
5. A strengthening of our public institutions and political system for the effective management of our resources

Ladies and Gentlemen,

We bring today our ideas, our dreams and our energy to support with our proposal the plan that will be presented by our Prime Minister. I am please to be here with a very strong delegation of our enlarged and redefined private sector to say to the world: Haiti will be build back and better.

Thank You.



VISION AND ROADMAP FOR HAITI

**Prepared by
Private Sector Economic Forum**

**FINAL DRAFT Version
PRESENTED TO GOVERNMENT OF HAITI**

March 23, 2010

About this document

This document is a Consultative Draft to be used for discussion purposes only.

It represents planning efforts led by the Private Sector Economic Forum, with support from Dalberg Global Development Advisors. It includes a broad consultation with more than 150 representatives from the business community, industry associations, regional chambers of commerce, and think tanks, as well as, government, donor agencies and multilateral institutions. The recommendations here within are aligned and consistent with those of the Presidential Commission on Competitiveness. Further information on the Forum members and the consultations can be found in the Annex.

The intent of this Vision and Roadmap is to contribute a representative perspective from the private sector on the Government of Haiti's plan for the reconstruction and development of the country. More broadly, this is an affirmation and commitment of the private sector to contribute to building a new social compact between government, civil society and the private sector.

Introductory memo

March 23, 2010

For the first time in the history of Haiti, a unified and inclusive private sector, organized around the Private Sector Economic Forum (PSEF) has decided to break with the past and formulate a shared vision and roadmap for the sustainable development of Haiti. Under the leadership of President Préval and the management of Prime Minister Bellerive, we re-affirm our commitment to working to create an equitable, fair and opportunity-laden society for all Haitians. Our vision for the country includes an expansion of the middle class, recognizing that this can only take place through the creation of tens of thousands of SMEs motivated by an entrepreneurial spirit and benefiting from access to credit and the elimination of impediments to their expansion. Our vision also encompasses the provision of quality social services and social security, to ensure dignity for all Haitians.

We support the efforts of the Haitian government to provide the country with a modern and efficient fiscal administration combined with more transparent and rigorous management of state revenues. This is a necessary precondition for meeting our objectives to increase fiscal revenues from 9% in 2009 to 15% over the next 5 years. We propose to create a **New Social Compact** that involves government, civil society, and the private sector – ranging from the large businesses to the informal traders and smallholder farmers throughout the country – in a partnership built on respect and mutual trust. This partnership will have to include, without any discrimination, Haitians living abroad. The New Social Compact will have at its core the strengthening of democracy and free enterprise, and a commitment to individual freedom, both political and economic.

We seek to create a prosperous Haiti, based on an economy that is diversified, environmentally conscious, competitive, and vibrant enough to bring back Haitians living abroad as well as attract Foreign Direct Investment to Haiti. Above all, this economy must be agricultural and decentralized, spreading across the various economic development poles identified outside Port-au-Prince. Social and economic growth must include all regions of Haiti in order to reduce the extreme poverty in rural Haiti, and allow for effective reconstruction of Port-au-Prince. Growth must also address all sectors and classes of people. To achieve this, the Haitian economy must benefit from the support of the Haitian government across the 5 clusters identified by the Presidential Commission for Competitiveness, namely (i) fruits and vegetables, (ii) animal husbandry, (iii) tourism, (iv) housing and urban development and (v) garments. Significant expansion across these sectors will allow for the creation of hundreds of thousands of new jobs and ensure shared economic prosperity in Haiti. In turn, a stronger and formalized private sector will contribute to strengthening government's capacity and ability to deliver public services.

While thanking the international community for its tremendous solidarity in these difficult moments for the Haitian people, we also extend the wish that it continue to support us in a spirit of capacity building

and creation of opportunity for all Haitians. Haiti must aim to rebuild in a manner such that the new Haiti is less reliant on the donor community for financing and support. Every plan put forward by the international aid community should have an exit strategy or sustainability component.

To succeed we recognize that we must also:

1. Recognize past mistakes and accept that January 12 was at once a natural disaster and a disaster caused by mankind
2. Insist on and contribute to transparent and efficient governance which uproots corruption and establishes a level playing field
3. Accept that it is the responsibility of all citizens and particularly the business community to fulfill our fiscal obligations and replace a culture of fiscal evasion with a culture of responsibility and strong moral leadership
4. Fully commit to the creation of a large middle class, which will allow us to fulfill the dream of a better quality of life for all Haitians
5. Understand that strengthening our public institutions and political system is necessary for the effective management of our resources and ultimately reducing our dependence on foreign aid

Only at this price can we achieve the mutual accountability, respect and dignity necessary for the creation of a stable, prosperous and free society.

In the spirit of these commitments, the Private Sector Economic Forum will take a first bold step by making fiscal compliance a condition of participation for all member organizations.

Yours sincerely,

Reginald Boulos
On behalf of the Private Sector Economic Forum

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1. Introduction

The devastation wrought in Haiti by the January 12, 2010 earthquake is monumental. Estimates indicate that over 200,000 people have lost their lives, and hundreds of thousands more are injured and homeless. Three million people have been directly affected, and the country's infrastructure, institutions and economy are crippled. The prospects for long-term recovery and development have been set back drastically. Yet, the opportunity has now arisen to help the nation *build back better*.

We, members of the Private Sector Economic Forum and the private sector more broadly, are committed to partnering with the Haitian government and to committing our own resources for the development of the country. Our vision for the country extends to the creation of a **New Social Compact** for all Haitians where business – from the large businesses to the informal traders and smallholder farmers throughout the country – the public sector, civil society and the international community are acting in concert, with mutual trust and accountability, in the best interest of all Haitians. To achieve this requires the private sector's commitment to full tax compliance and the government's commitment to meeting minimum service levels and managing budgets, decision-making and funding in full transparency. The private sector is determined to adhere to its fiscal obligations within this New Social Compact.

2. Vision 2020

The earthquake has set us on the beginning of a new path. The opportunity exists for all Haitians to benefit from transformative change – creating private-sector led, robust economic growth, accessible high-quality social services, and a well-functioning, high-performing government. This change must be driven with a respect for the dignity of every Haitian.

Our vision for the country includes at its core an expansion of the middle class, which can only be done through the creation of tens of thousands of small and medium enterprises motivated by an entrepreneurial spirit and benefiting from access to credit and the elimination of barriers to their expansion.

Any vision of a prosperous Haiti rests on an economy able to provide jobs, create wealth, and ensure social security for all Haitians. But the Haitian economy must also be:

- Diversified, with an agricultural base and opportunities across tourism, light manufacturing and eventually a business process outsourcing industry;
- Green, ensuring all future actions repair, restore and protect Haiti's ecosystem;
- Competitive, with a level playing field working closely with a fully-functioning modern government; and,

- Vibrant, with GDP growing at over 5% per annum and attracting Foreign Direct Investment (FDI) as well as Haitian Diaspora investment and return;
- Regionally integrated, with relations in place with the Dominican Republic, Caricom, Central America and the United States that allow Haiti to prosper.

By 2020, we commit to making Haiti a diversified and robust economy open to all, and renowned for its environmental sustainability and modern government.

Recognizing that this journey will be long and challenging, the following sections detail the priority actions in the short (18 months), medium (3 years) and longer term (5 years) to achieve the vision of a new Haiti. In summary, they include:

- Short-term: Provide basic services and spur business activity
- Medium-term: Create decentralized and competitive growth poles
- Long-term: Expand economic opportunity to build a vibrant middle class

2.1. Short-term: Provide basic services and spur business activity

In the coming 18 months, Haiti's first priority must be recovery, providing basic services of health, nutrition, education and shelter to all Haitians and sustaining the Haitian economy in the face of immediate challenges.

Haiti in the short-term must be one of well-coordinated donor and humanitarian efforts, where basic services are provided quickly and a sense of normalcy is returned as soon as possible: children are back in school, food and healthcare are being provided, and reconstruction is well underway. This reconstruction should be inclusive of Haitians, employing as many local workers as possible, and using local supply chains. An environment has to be created where Haitian businesses can survive this loss of assets and customers, through provision of stopgap loans to cover ongoing debt obligations and well-policed national borders to stop an influx of smuggling.

By the end of the 18 month recovery period:

- 500,000 Haitians will be employed primarily in construction and agriculture with minimum wage levels achieved
- 100,000 permanent housing units will be created
- 30% of humanitarian aid products will be made in Haiti
- The informal sector will be 85% of the economy, from 95% today
- A guarantee fund will have been created to provide short-term stopgap loans to Haitian SMEs, reaching 75% of businesses in need of capital
- Social investments will be made alongside investments in economic development

2.2. Medium-term: Create decentralized and competitive growth poles

As the nation begins to rebuild and reconstruct, the fundamentals for a new, decentralized economy need to be established, both to provide more economic opportunity for Haitians, and to ease the overcrowding of Port-au-Prince that contributed to the magnitude of the disaster.

The Presidential Commission on Competitiveness has identified high priority sectors based on their ability to create jobs and value for the Haitian economy. The private sector should commit to investing in these sectors and to assuming some degree of risk; the government should create economic development zones to facilitate the functioning of the sectors and offer corresponding incentives, as well as ensure that trade agreements and monetary policy favor the development of these sectors.

The competitive growth poles should include the following, in addition to a restored Port-au-Prince:

1. In the North, between Cap Haitien and Ouanaminthe, to support tourism, garments and agriculture;
2. Around Gonaives and La Pierre to link the Artibonite valley and support agriculture and tourism; and,
3. In the South to support agriculture, garments and tourism.

By the end of the 2-3 year reconstruction period,

- 750,000 Haitians will be employed in construction, agriculture, tourism, and garments with minimum wage levels achieved
- Three new economic growth poles will be created, with basic services provided across the poles
- 1 million Haitians will be settled in 250,000 new permanent housing units, primarily in new growth poles and agricultural areas
- The fiscal revenue base will represent 12% of GDP from its current 9%
- A well-managed social security system will be established

2.3. Long-term: Expand economic opportunity to build a vibrant middle class

The earthquake has given Haiti the chance to build a better society for all – a new Haiti. Haiti in the long-term succeeds only with a robust middle class functioning as part of a transformed society, where a culture of entrepreneurship co-exists with a modern, well-functioning government.

In five years,

- 1 million new jobs created with minimum wage levels achieved
- The Haitian government will have passed necessary legal and administrative reforms to rank in the top 75 in the World Bank Doing Business rankings
- SMEs in the formal sector will represent 50% of the economy
- The fiscal revenue base will represent 15% of GDP
- Universal access to primary education will be achieved

- Social security system in place to insure increased access to healthcare
- 10% of land on the Haitian territory will be forested
- 500 million of FDI will have been attracted, and 1 million total jobs created in agriculture, tourism, garments and related service sectors

3. Principles

Difficult tradeoffs will doubtless need to be made in the reconstruction of Haiti, but how we approach the coming period will determine whether or not we can truly transform our country's social, political and economic fabric for the better. The earthquake and dealing with its immediate aftermath has created a new and previously unparalleled solidarity in Haiti across all people, and across the government, private sector and international community. If we fail to adhere to a set of basic principles during the immediate reconstruction period, we will all have squandered a once in a lifetime opportunity to set the country on a new path of social and economic growth.

Five priority principles must guide all actions and decisions during reconstruction:

- **Leadership and mutual accountability:** Strong leadership from, and partnership between, the private, civil and public sectors is required for the country to move forward. Transparency and sustained dialogue are needed to hold each sector to mutual accountability.
- **Decentralization and equal growth:** Social and economic growth must include all regions of Haiti in order to reduce the extreme poverty in rural Haiti, and allow for effective reconstruction of Port-au-Prince. Growth must also address all sectors and classes of people.
- **Commitment to modernization:** Efforts to rebuild the Haitian state must propel us into the 21st century. The private and public sectors must be committed to change and comfortable leaving previous ways of doing business and governing behind. Private delivery of public services can play a significant role in helping the government to increase the quality of its services.
- **Haitian-led:** Recovery and reconstruction programs must respond to the real needs of Haitians on-the-ground and should be directed by Haitian leadership. Aid programs must reinforce state agencies and not weaken them.
- **Independence from international aid:** Haiti must aim to rebuild in a manner such that the new Haiti is less reliant on the donor community for financing and support. Every plan put forward by the international aid community should have an exit strategy or sustainability component.

We must all hold ourselves accountable for adhering to these principles.

4. Pillars of Vision 2020

Achieving this social and economic growth requires a multitude of investments, both in terms of financial and human capital. Five areas in particular deserve significant attention: (i) Jobs and shared economic opportunity, (ii) Agriculture and the environment, (iii) Health and education, (iv) Housing and economic security, and (v) Governance and institutional capacity.

4.1. Pillar I: Jobs and shared economic opportunity

In the near-term, the construction of housing and infrastructure will create hundreds of thousands of jobs for Haitians, but Haiti's long-term economic prosperity must rely on building a productive agriculture and a skills-based economy in globally competitive sectors.

Given the need to create jobs immediately, aid efforts must ensure that they are strengthening and not displacing the Haitian workforce and Haitian businesses. We have been overwhelmed by the generosity and compassion that individuals, corporations and governments outside of Haiti have demonstrated in the aftermath of the earthquake. We now critically need them to be our partners in rebuilding the private sector in Haiti – by ensuring that aid efforts include Haitian manufacturers in their supply chains; by requiring minimum levels of Haitian employment in construction projects; and, by supporting efforts such as 'Plus One for Haiti' to source imports from our country.

More broadly, we support the work of the Presidential Commission on Competitiveness, which has identified the following portfolio of priority sectors: (i) fruits and vegetables, (ii) animal husbandry, (iii) tourism, (iv) housing and urban development and (v) garments. Significant expansion across these sectors will allow for the creation of hundreds of thousands of new jobs and ensure shared economic prosperity in Haiti. Across the board, the development of these sectors will require not simply an expansion in the number of jobs provided, but also an upscaling of activities in Haiti in order to capture higher value. As infrastructure investments are made to support these initially prioritized clusters, new opportunities can also be developed. For example, various light manufacturing options can be successfully developed in Haiti once investments in industrial parks and related energy and port investments come online. A stronger and formalized private sector will contribute to strengthening government's capacity and ability to deliver public services.

Outcomes for this Pillar target priorities in job creation, formalization of the economy and decentralization of competitive economic growth poles. Job creation must be inclusive, and particularly attune to ensuring opportunities to the disabled and handicapped among the Haitian population. Social compliance more generally should be re-enforced across the Haitian private sector.

Outcome	18 months	3 years	5 years
Jobs created	500,000 primarily in construction and agriculture	750,000 in construction, agriculture, tourism, and garments	~1 million, with 300,000 in fruits & tubers, 400,000 in animal husbandry, 120,000 in garments, 75,000 in construction and 17,000 in tourism
Informal sector as percent of economy (Baseline: 95%)	85% of economy	75% of economy	50% of economy
Population settlement and decentralization	500,000 migrated and settled from Port-au-Prince	750,000 million workers and families settled in permanent housing, primarily in new growth poles and agricultural areas	1 million workers and families settled in permanent housing, primarily in new growth poles and agricultural areas

4.1.1. Drive near-term employment for Haitians in construction. Major construction projects are needed in the near term, both to rebuild Port-au-Prince and to develop new economic growth poles across the country. The construction of housing and infrastructure must balance multiple needs: responding to the urgency of the situation, creating business and employment opportunities for Haitians, building for quality, and ensuring provision for maintenance. International construction companies will bring the needed expertise but should be required to employ Haitians, contract local suppliers and be held accountable for reliable construction methods.

To this end, we outline the following initiatives:

1. Create financial, land and import duty incentives to spur mid-level housing development and initiate decentralized low-income housing developments (More detail in Pillar 4 below).
2. Update the construction code (More detail in Pillar 4 below).
3. Mandate a minimum of 70% employment be Haitians, and target 25% of subcontracted business from Haitian suppliers for any construction or infrastructure projects.
4. Devise and implement an automatic linkage between financial resources made available for infrastructure projects and those made available for maintenance.
5. Prioritize modern construction techniques for major roads and infrastructure and mandate labor-intensive techniques for feeder roads, in order to create the maximum jobs in the short term without holding back reconstruction.

Target indicators:

- Jobs created in housing and infrastructure

- Projects initiated and procured
- Percent of employment and budget to Haitians meeting 70% mandate and 20% target

4.1.2. Create new competitive economic growth poles around priority sectors. The development of priority sectors for Haiti must take place through a decentralized economy combined with strong central management of trade policies through the Ministry of Commerce and Industry. While there are many opportunities for economic development, the next 3-5 years should be focused on four economic growth poles, including a reconstructed Port-au-Prince. These include:

1. North: Agriculture, Garments and Tourism. Located between Cap Haitien and Ouanaminthe with an industrial park located in Fort Liberte. The following investments would be required:
 - a. Public investment in an Industrial Park located on government land around Fort Liberte, with appropriate economic zoning. The Industrial Park should be privately managed through contract and ultimately, privatized. Private sector commitment to relocating and creating jobs in industrial parks prior to public investment will help catalyze these investments.
 - b. Deep-water port at Fort Liberte with license and capability to handle containers. The Fort Liberte location, vis-à-vis Cap Haitien, is favorable given available land for storage, staging and growth, as well as distance from city inhabitants and tourism.
 - c. Wholesale market located near Fort Liberte Port for triage of produce between export and domestic markets, with related investments in processing and supply chain (collection, transportation, and information networks)
 - d. Energy investment near industrial park
 - e. International airport in Cap Haitien to serve both tourists and cargo, particularly back-haul of perishable agriculture on passenger flights. The airport should have a runway of 3,000 meters to allow long haul flights to take off.
 - f. Road between Labadie and the UNESCO World Heritage Sites within the National History Park (Citadel, Sans Souci and Ramiers). Roads to be completed by EU and French government and with feeder roads to be built into agricultural areas.
 - g. Development of the National History Park with modern facilities in order to accommodate large numbers of visitors while regenerating natural resources.
2. Artibonite Valley (the breadbasket of Haiti): Agriculture and Tourism. The following investments would be required:
 - a. Feeder roads into agriculture producing regions to link with primary roads to Port-Au-Prince and Cap-Haitian / Fort Liberte.
 - b. Container port in Gonaives, as well as coastal cabotage landing points to increase access to rural cargo loading and unloading.
 - c. Expansion of current 2-lane road from Port-au-Prince to Saint Marc to a 4-lane road while bypassing certain villages and shorelines to reduce transportation time.
 - d. Watershed restoration project to prevent soil erosion and flooding. Significant investments in farmer productivity, as well as storage and collection facilities.

- e. Tourism investments on the Saint Marc Peninsula and nearby islands.
3. South: Agriculture, Garments and Tourism. Located around Les Cayes. The following investments would be required:
- a. Watershed restoration project to prevent soil erosion and flooding.
 - b. Feeder roads into cocoa, coffee and banana producing regions to connect to Port-Au-Prince in the near-term, and to serve a local port in the medium-term.
 - c. Deep-water port in Baie du Mesle with license and capability to handle containers. A regional feeder port should be built, but a trans-shipment port should be explored with international shipping companies – subject to technical and economic feasibility - given potentially favorable location and water depth. The Canal du Vent, which separates the island of Cuba from Haiti, could also be explored as an alternative location for trans-shipment, due to the passage of 34% of international traffic through the canal. A trans-shipment port would reduce shipping costs given increased outbound, and also create additional jobs, but requires both sufficient scale and significant capital investment.
 - d. Smaller coastal cabotage landing points should also be established.
 - e. An international airport near Les Cayes with an extension of the current runway from 1,000 to 3,000m.
 - f. Wholesale market located in Les Cayes for triage of produce between export and domestic markets, with related investments in processing and supply chain (collection, transportation, and information networks)
 - g. A tourist resort zone between Aquin and Cote de Fer, with 20km of continuous first-class beaches, as well as tourism investments in Port Salut, Ile a Vaches and Grand'Anse.
 - h. Public investment in an Industrial Park focused on garment assembly located near Les Cayes, with appropriate economic zoning. The Industrial Park should be privately managed through contract and ultimately, privatized.
 - i. Energy investment near industrial park
 - j. Development of a leading agriculture program at the University of Notre Dame's agricultural engineering facilities in Redon.
4. Port-au-Prince: Garment and other Light Manufacturing. The following investments will be required:
- a. Rebuilding and improvement of existing Industrial Parks, completion of 2-3 private investments in proposed new Parks and support to additional investment, including foreign direct investment, for Parks on existing land sites.
 - b. Urban planning and restoration of Port-au-Prince and surrounding areas.
 - c. Rebuilding of international airport.
 - d. Rebuilding of port infrastructure and managed contract for public port.

- e. Wholesale market located near Port-au-Prince Port for triage of produce between export and domestic markets, with related investments in processing and supply chain (collection, transportation, and information networks)

Preliminary estimates of major infrastructure investments for the new economic growth poles are in Section 5: Roadmap. The specific infrastructure investments highlighted are directional and subject to feasibility studies which address technical and environmental considerations.

In order to make these economic growth poles successful, we outline the following initiatives:

1. Create Regional Development Boards around each of the new economic growth poles to develop detailed and integrated plans and oversee the rapid execution of the projects. These boards must include representation from government, private investors, local businesses and donors as well as participation of NGOs and have a direct linkage to the senior-most level at the Haiti Development Authority. We suggest that just one multi-lateral and/or bi-lateral donor should take the lead on each pole to reduce complexity in coordination across multiple donors. These Regional Development Boards will be a critical component for a dynamic planning process with ongoing private sector participation.
2. Invest public funds in Industrial Parks in both the North and South economic development zones, with private management through contract. Given the risk and timing associated with garment tenants, public funding is necessary to catalyze investment in the new economic development zones. These industrial parks should be privatized either on a specific timetable, or on operating metric triggers.
3. Create flexible labor laws, including immediately legalizing the 3x8 work shift to allow increased competitiveness in the garment industry and rapid expansion of capacity for job creation, to be expanded to all public and private sector activities.
4. Integrate public plans for provision of housing and basic services around these new zones and place increased security at strategic locations, particularly to support the proposed expanded work shift. Amend requirements to allow housing within zones.
5. Create managed contracts for the critical infrastructure associated with these economic zones, (Noted below in Section 4.1.3) and establish minimum service level guarantees by the government for housing, water and sanitation, as well as other basic services.
6. Revise and ensure proper application of the investment code, adopt turn-key legislation, and provide or support land concessions, to immediately attract Foreign Direct Investment in Industrial Parks. This will require a strong and structured Centre de Facilitation des Investissements (CFI) able to adequately support foreign investors.
7. Lobby to move from Hope II to Hope III with 250M m3 import allowance and additional 15 years, in order to attract the appropriate firms.
8. Develop urbanization plan overlaid with natural disaster risk map in order to help investors and funders better select locations and evaluate risk.
9. Create targeted programs involving disabled and handicapped in the economy.
10. Ensure ICT solutions are available at competitive rates. In the short-term, this will require legal reform and the modernization of CONATEL. In the medium, new enterprises will need to be

created within the sector and competitiveness increased. In the long-term, technological parks can be considered and would require HR to be developed accordingly.

Target indicators:

- Road construction initiated immediately in North, South and Artibonite Valley
- Regional Development Boards constituted in 3 months
- Infrastructure site feasibility plans completed in 6 months
- Financing and site development plans completed for investments in 6-9 months

4.1.3. Involve private sector in provision of critical infrastructure. Efficient management of infrastructure and public services is critical to allow the effective development of the private sector in Haiti and to ensure that the maximum number of jobs can be created. Currently the management of customs, airports, ports and energy does not lend to a positive enabling environment for businesses in Haiti.

Customs is only collecting approximately 20% of import duties across the Haiti – Dominican Republic border, reducing the competitiveness of local production and the fiscal base of the government. In addition, energy is expensive and unreliable; ports are destroyed almost entirely and need to be rebuilt as quickly as possible in such a way as to correct past errors and ensure a high level of productivity and efficiency; and the international airport in Port-au-Prince is badly damaged. Infrastructure, including ports and airports, is non-existent in the North and South economic growth poles. The management of these areas needs to be overhauled. To do so we propose that the GOH pursue public-private partnerships with managed contracts for each critical infrastructure asset. All contracts should be competitively and transparently bid and open to international and local companies. Private sector commitment to ensuring fair competition and a level playing field with regards to access to critical infrastructure will make the most of these investments.

More specifically, we outline the following guidelines for the managed contracts and concessions:

1. Customs:
 - Customs must be completely revamped. Some collection functions could even be turned over to one or more specialized, private outfits to ensure accountability, with compensation aligned with specific performance targets for duty collection.
 - Customs collection should be automated and require reconciliation between inbound carrier and customs collection records.
2. Energy:
 - Outsource the administration, technical expertise and collection activities for EDH, with a focus on decentralized management. Pre-paid electricity meters should be considered.
 - Amend the energy law to allow Independent Power Producers (IPPs) to operate in the country and supply power to the industrial parks, with transitional arrangements to supply power outside of the industrial parks while internal demand is building up.
3. Water and Sanitation

- Outsource administration and technical expertise with long-term public concessions.
4. Ports:
 - Public port in Port-au-Prince should be reconstructed under private management and financing.
 - Access to the public facility should be guaranteed to all existing and future users.
 5. Airports:
 - Conduct a quick, limited competition to immediately get the international Port-au-Prince Airport fully operational with proper management.

Target indicators:

- Limited competitive bidding process initiated for Port-Au-Prince airport within 2 months
- Competitive bidding process initiated for Energy, Ports management, and some Customs collection functions within 6 months

4.1.4. Build and formalize micro, small and medium enterprises (MSMEs). Micro, small and medium enterprises are a significant source of innovation, and drive economic growth and job creation. The formal and informal enterprises that contribute an estimated 95% of the Haitian economy were especially exposed to the devastation wreaked by the earthquake. The near-term recovery requires assisting these businesses in overcoming the losses incurred. Longer term, the sustainability of the economy and expansion of the fiscal revenue base depends on their success. Women are key contributors to the MSME segment and gender-responsive programs should be developed to allow them to thrive equally with their male colleagues.

More specifically, we outline the following initiatives:

1. Keep loan capital flowing to existing SMEs:
 - a. Support the rapid assessment and payment of insurance claims to provide re-startup capital.
 - b. Create a partial guarantee fund issued through the Central Bank to commercial banks in order to refinance existing loans issued in Port-au-Prince and to extend credit to SMEs to actively participate in the reconstruction; if necessary, provide initial grants to support clearing rubble from land to initiate re-startup and financing process. The required guarantee is estimated at \$350M in order to allow over \$2B of financing. Sector and asset specific strategies will need to be developed for the allocation of the \$350 partial guarantee e.g., financing for education can benefit from more aggressive partial guarantee provisions.
 - c. Establish mechanisms for recapitalization of banks, including the issuing of subordinated debt by banks and creation of a fund or financial entity tasked with purchasing portfolios of insolvent loans, if liquidity becomes a constraint; in the case of the latter solution, the banks themselves should still be tasked with the recovery of loans and be compensated on a commission basis;

- d. Expand the types of guarantees accepted by banks to include purchasing guarantees.
2. Increase loan capital available to micro-entrepreneurs, using similar initiatives as above as well as the following:
 - a. Put in place an insurance mechanism to protect MFIs from risks linked to natural disasters or other external shocks, which have often wiped out MFI's activities in Haiti and significantly reduced operations in areas of the country that are more prone to natural disaster.
 - b. Distribute one-time flexible, financial assistance through MFIs to micro-entrepreneurs that were active in Port-au-Prince such that they can meet immediate needs and be positioned to re-build operations, possibly funded and supported by a fundraising effort targeting the Diaspora.
 3. Support new entrepreneurs with seed capital and management assistance, to unleash entrepreneurship:
 - a. Launch investment funds capable of providing both management assistance and risk capital, through quasi-equity instruments, to meet the needs of small and medium-sized enterprises, particularly those without a near-term asset base to use as collateral. Local Haitian private sector co-funding of these investment vehicles will add local knowledge, expertise and commitment.
 - b. Create a minimum of 1 Incubator in each of the 4 economic growth poles to provide seed grants and support to new entrepreneurs.
 - c. Establish Centers for Entrepreneurship targeting Haitian entrepreneurs across prioritized growth sectors, and tasked with providing training courses in basic business skills and modular trainings on specific sectors.
 4. Support the formalization of the economy by putting in place requirements and incentives for formalization of MSMEs:
 - a. Simplify formalization requirements and create fast-track processes for SMEs in economic development zones, reducing the burden and cost of compliance.
 - b. Provide funding to the Regional Chambers of Commerce through the Regional Development Boards and with appropriate accountability standards to assist SMEs in becoming formal, including incorporation, registration, accounting and governance support.
 - c. Make formalization a requirement for any MSMEs receiving funding through reconstruction effort, including through NGOs and government. Require proof of business formality (i.e., business license) and possibly tax compliance. Require NGOs to fund and support formalization of MSMEs from whom they source, and to provide quarterly reports of MSME funding and project completion through the Regional Development Boards.

Target indicators:

- SME loans refinanced
- MFI customers and loans
- New loans and investments in SMEs
- SMEs supported by Incubators
- SMEs formalized
- Accountability ensured through Regional Development Boards

4.1.5. Establish clear and undisputed land ownership. The lack of clarity in land ownership has long been a barrier to private sector investment in Haiti and currently discourages banks from making mortgages available. While multiple plans have been developed to address land ownership issues in Haiti, the political will has been lacking to execute on these plans. While the first obvious step is to salvage existing records, the reconstruction effort creates an unparalleled opportunity to once and for all provide clarity on land ownership and adjudication procedures, and to implement a special adjudication process with enforcement under the aegis of MINUSTAH.

More specifically, we outline the following initiatives:

1. Establish a Special Land Adjudication Court in partnership with the GOH and Haiti Development Authority.
2. Establish land cadastre and simplify title registration procedures.
3. For dispute-free government land: (a) Immediately award and register land titles to individual owners who have maintained and improved the land; and, (b) Award concessions or long-term leases for commercial use in the reconstruction effort and for productive improvement, including for Industrial Parks and Commercial Farms (to support out-grower schemes).
4. For disputed land, adjudicate claims, with a focus on special fast-track procedures for new economic development zones outside of Port-au-Prince. Establish clear deadlines for claims to be filed, as well as either minimum fees or community involvement to discourage frivolous claims.
5. Establish strong penalties for land title fraud going forward.

Target indicators:

- Adjudication court and land titling procedures established in 3 months
- Land titles awarded
- Percent of land titled and undisputed

4.2. Pillar II: Agriculture and the environment

Agriculture plays a critical role in the Haitian economy and in the lives of the Haitian people, 60% of whom live in rural communities. Developing this sector offers the opportunity for shared growth and wealth creation across Haiti. It is also necessary from a food security perspective.

Developing export agriculture goes hand-in-hand with increasing domestic food production since it will allow input supply chains to develop – creating access to fertilizer, seed and micro-irrigation technologies – as well as spearhead the development of extension services and financing solutions for agriculture. “Anchor” commercial farming operations with a focus on out-grower schemes will allow sufficient scale to justify investment in roads and transport which can link rural areas with urban markets in Haiti, and with ports and airports for export. Feeder roads developed around this core infrastructure and linked to an emerging coastal cabotage network can increase market access for the majority of Haiti’s rural population. With the country’s landmass being 80% mountainous, sustainable mountain agriculture practices will need to be developed and enforced, whereas urban expansion into the few plains more suitable to traditional agriculture will need to be managed. Agricultural zones must clearly be drawn into the new map for Haiti. Protection and rehabilitation of the fragile watershed areas will also need to be prioritized.

Gender responsive strategies must be developed in agriculture both because women are key operators across agricultural value chains and because improving women’s incomes can have significant impact on social welfare. Studies have shown that improving women’s incomes improves child health and welfare to a far greater degree than men’s (up to 11 times more in Cote d’Ivoire) and investments in women produce the majority (~55%) of reductions in child malnutrition – more so than actual food availability (~26%) or improvements in health provision (~19%)¹.

Environmental concerns must be a core tenet of economic development in Haiti to make the agriculture sector sustainable, especially in the long-run. But these concerns extend far beyond the agriculture sector: massive deforestation has led to extensive soil erosion and significant damage to Haiti’s water tables, top soils and aquifers, which has only increased the vulnerability of the Haitian people. Fragile watershed areas will need to be protected and rehabilitated, and environmental sustainability closely managed within Haiti’s agricultural development strategy. However, that by itself will not be enough for restoring our ecosystem.

Haiti’s energy strategy must address environmental sustainability. We must quickly eliminate the use of charcoal products and shift from fossil-fuel based products to renewable energy options. A greener Haiti – both through reforestation and increased use of solar power technologies – will bear rewards not

¹ The Unfinished Agenda, IFPRI, 2001

simply for our environment but also for our positioning on the global stage, contributing to Haiti's competitiveness across all prioritized sectors and attractiveness as a tourist destination.

Outcome	18 months	3 years	5 years
Agricultural imports as % of production	75%	70%	65%
Number of smallholder farmer households benefiting from increased incomes	Number to be determined	Number to be determined	Number to be determined
Average income lift for farmers affected	25%	50%	50%
Malnutrition rates	3% acute 16% chronic	0% acute 8% chronic	0% acute <5% chronic
% forest land	5%	8%	10%
Evolution of charcoal consumption	Reduced by 10%	Reduced by 20%	Reduced by 50% (to ~165M tones from ~330M today)
% of energy from renewable energy sources	2%, primarily from housing	5%, from housing and industrial parks	15%, from housing and industrial parks

4.2.1. Kick-start domestic production by integrating into humanitarian projects. The delivery of food aid offers not only a lifeline for the populations devastated by the earthquake, but also a market opportunity for agricultural populations. The Revised Humanitarian Flash Appeal unveiled on February 18 includes \$475M in food aid. WFP will be coordinating interventions in this area, including school feeding programs and the provision of micro-nutrient enriched supplementary foods to children and lactating and pregnant women. Domestic agricultural production should be integrated into these humanitarian projects through (i) substitution of food imports with domestic products and (ii) creation of programs to immediately increase food security in rural regions.

We support the Ministry of Agriculture's recommendations in this area (estimated at \$12.5M) and recommend that the GOH and international donors articulate a clear strategy that integrates domestic production and humanitarian aid. We outline the following initiatives:

1. Involve private sector in creation of 10 modern storage and treatment facilities in the major production areas of Haiti by:
 - Putting in place long-term contracts for private sector providers to create hubs and manage provision to the hubs with domestic produce. This will require that minimum volumes be agreed in advance by GOH and WFP.
 - Ensuring funding for the logistics and distribution of products from hubs to vulnerable populations and school feeding programs by GOH and WFP.
2. Roll out stop-gap programs at the local level that support rural populations in rapidly bringing to harvest high-nutrition produce (e.g., Haitian spinach, eggplant, sweet potatoes,

beans, corn and peanuts). Areas with the biggest flow of displaced populations should be prioritized.

Target indicators:

- Strategy in place for integrating domestic production and humanitarian aid
- Modern storage and treatment facilities completed
- Percentage of humanitarian aid from domestic supply

4.2.2. Increase food security and improve nutrition. Today, Haiti is a food insecure country, dependent on imports for approximately 75% of its needs, according to the U.S. Department of Agriculture. 9% of children under the age of five suffer from acute malnutrition and 24% from chronic malnutrition. When combined with the high population density which will only be aggravated by population growth, Haiti's ability to produce all the food needed for its population will continue to be strained. As such, a focus on a mid-to-long term solution to food security is critical. These solutions require a three pronged approach which increases the amount available for consumption, addresses malnutrition through targeted fortification of foods and provides targeted support to vulnerable populations. Achieving this requires an integrated national market.

To effectively address the food security issue, we outline the following initiatives:

1. Develop strong farmer cooperatives to provide inputs and credit, as well as aggregate supply of extension services and ultimately farm output. Well-functioning cooperatives will increase the amount of food produced in Haiti and result in increased margin capture by the farmers themselves.
2. Implement targeted fortification of foods such as milk, flours, oil and salt. WFP can play an important role in catalyzing fortification of foods in Haiti by making fortification mandatory for all suppliers of humanitarian programs.
3. Increase consumption of fruits and vegetables by linking produce that does not meet export-market standards is circulated in the local market for consumption.
4. Revamp the dairy and poultry industries to increase consumption of milk and eggs, which are important sources of proteins. This is estimated to cost \$179M and create 400,000 jobs²
5. Establish a permanent Irrigation Infrastructure Maintenance Authority (IIMA) to assure efficient use and delivery of water for farm production and aqua-culture for increased domestic food security.
6. Consider investment in greenhouses within new urban centers, with the help of technical support from the Dominican Republic or Latin America. Public investment may be needed for the initial development, with transfer to cooperatives or private enterprises after initial period.

² Competitiveness Working Group estimates \$179M in costs which includes: investments in 2 incubators / hatcheries (\$1.52M), 12 feed mills (\$65M), 12,925 farms (\$56.4M), 1 slaughterhouse (\$40M), 25-50 new dairy cooperatives (\$2.5M), as well as investments in training, sales and marketing. The latter investments include: an animal husbandry training institute (\$5M over 5 years), a comprehensive sector strategy (\$400K), an animal husbandry laboratory (\$500K), product standardization and quality monitoring capability & ongoing system (\$7.5M over 5 years).

7. Create an insurance mechanism against surge in the prices of staple crops which can bring additional strain to an already vulnerable situation. The World Food Program could take a lead role in creating such a mechanism.

Initiatives to increase domestic food production should all be prioritized around export-led agribusiness initiatives (described in 4.2.3. below) so as to leverage the same infrastructure and supply chain investments.

Target indicators:

- % of children under 5 suffering from acute malnutrition
- % of children under 5 suffering from chronic malnutrition

4.2.3. Boost export-led agribusiness by investing around specific value chains. Agri-business represented just 26% of GDP in 2008 versus 35% in 1994. Haiti has significant potential to expand the role of agriculture as an income generator. Micro-climates, combined with proximity to the US means there is potential for production of tropical fruit (such as mango, banana and avocados which employ 450,000 smallholder farmers) as well as targeted counter-cyclical production of high value products such as fresh produce. Coffee also presents a significant potential for job creation as well as positive environmental effects. Today, more than 200,000 smallholder farmer households are coffee growers. Potential exists to significantly increase coffee yields from 350kg / ha to 1,200 kg / ha and significantly impact smallholder farmer livelihoods with appropriate financing, inputs and market access interventions.

The Competitiveness Working Group estimates that a \$175M investment in fruit & tuber value chains alone can generate 300,000 jobs over the next 5 years³. While a processing base already exists and can be built upon to ensure additional value is captured in Haiti, the private sector will further invest in agri-business if effective infrastructure can be developed. In agri-business, we outline the following initiatives:

1. Invest in commercial farming operations and greenhouses located on the road between Port-au-Prince and Cap Haitien and on the road between Saint-Louis-du-Sud and Port-au-Prince in order to take advantage of back-haul capacity of aircraft for export of high value produce, as well as port infrastructure.
2. In the North where private land is contested, lease government land for commercial farming in exchange for commitments such as developing targeted out-grower schemes to involve

³ Competitiveness Working Group costed investments include investments in product development, training and sales & marketing. In product development: higher value processing and export facilities (\$10M), creation of 200 post-harvest centers at \$35,000 each (\$8M over 5 years), establishing TCI mango plantations in 3 priority zones (\$15M), establishing 2,500 hectares of SME accessible ferti-irrigation banana production (\$90M), establish Crop Insurance capability (\$10M). In training, sales & marketing: using the post-harvest centers as delivery points, establish farmer to post-harvest center capacity building program (\$27.5M over 5 years), creating a brand and marketing strategy (\$150k), organizing two way FAM trips (\$1.25M over 5 years), preparing and financing a large-scale marketing campaign (\$5M over 5 years), controlling watershed in key ag priority regions (\$7.8M), investing in product standardization & quality monitoring capability & ongoing system (\$5M over 5 years)

small-scale farmers, and allocating a minimum percentage of land to tree crops to ensure reforestation of the Haitian territory.

3. Fix the post-harvest supply chain (where over 40% of produce is lost) through investments in an integrated national market linked to export infrastructure, with an emphasis on increasing farm-gate prices to producers. This would require:
 - Public and private investments in wholesale markets located near major ports which can act as central hub for triage of produce between export and domestic markets, as well as between processing and fresh consumption;
 - Development of collection, transportation and information networks around these wholesale markets. Renewable energy (e.g., solar powered refrigeration storage) may be appropriate here;
 - Investments in roads and infrastructure to link major producing regions with major consuming regions and export infrastructure.

4. Make financing options available at favorable interest rates and with appropriate re-payment terms at all levels of high-potential agricultural value chains, including fruit and coffee. A combination of the following options may be necessary here, many of which will extend beyond export value chains but should be prioritized in those instances:
 - Financial products that go down to the farmers in high-value supply chains;
 - Grants and technical assistance to support the initial formation of farmer cooperatives;
 - Creation of new micro-finance institutions in rural areas;
 - Development of mobile banking solutions that link rural farmers with families located in urban centers or abroad;
 - Developing savings cooperatives;
 - Creating targeted quasi-equity solutions for SMEs involved in agriculture;
 - Two-step loans, similar to model used in Dominican Republic for rice.

5. In the case of coffee, support increased value-capture in Haiti through:
 - Funding of coffee processing centers across major coffee producing regions of Haiti to increase quality of coffee (approximately 20 centers @ \$100,000)
 - Supporting market linkages particularly with high-value niche markets but also by normalizing trans-border coffee trade to meet Dominican Republic coffee deficit. In both cases, value addition in Haiti is essential.

Target indicator

- Volume of exports (metric tons)
- Financing available to agribusiness

4.2.4. Improve reforestation and soil protection efforts. Extreme deforestation exposes Haiti and its agriculture sector to significant risk given the resulting soil erosion and pressure on water-towers.

Likewise, Haiti has a significantly under developed LPG industry, compared to neighbors such as the Dominican Republic (20,000 tonnes a year in Haiti vs. 750,000 tonnes per year in DR). We outline the following initiatives to address this critical issue:

1. Integrate environmental considerations into agriculture strategy by prioritizing tree crops on agricultural land to encourage reforestation of the Haitian territory and investing in watershed management. Covering a surface area of 100,000 ha, coffee ecosystems represent practically the biggest area of tree coverage in Haiti. The protection of these ecosystems is necessary for the preservation of the environment. Promote alternative sources of energy and eliminate use of charcoal and firewood by
 - Regulating against commercial use of charcoal and introducing a subsidy for alternative sources of energy such as Liquefied Petroleum Gas (LPG) products. This should include a legal framework and regulation to ensure stringent safety norms in the production, distribution and use of LPG cylinders;
 - Creating incentives for use of solar lanterns and solar power for lighting;
 - Expanding electricity at affordable prices;
 - Putting in place and implementing penalties for cutting down trees.
2. Integrate basic techniques against soil erosion into all extension service programs, including radical terracing for hill-side agriculture; planting of cover crops; and, development of gabions in key valleys.
3. Adopting tree replanting programs. Petroleum companies in particular can invest in such programs.
4. Tap carbon credit markets for carbon sequestration through reforestation. This would be attractive for large-scale forests developed, particularly when coupled with timber supply. It also has the potential for additional income for small scale farmers.

Target indicator

- Percentage land forested
- Carbon consumption (tons)

4.2.5. Increase and create incentives for renewable energy sources. We can put in place measures that encourage use of renewable energy resources and increase Haiti's energy security. The reconstruction effort offers an unparalleled opportunity to build green on a large scale. The private sector can launch renewable energy businesses provided the right incentives are in place. To do this we outline the following initiatives:

1. Immediately creating tax incentives for duty-free import of renewable energy technologies, particularly solar energy.
2. Subsidizing use of solar panels and green technology in construction of new housing units, which could potentially be supported by the United Nations Environmental Program (UNEP).

Target indicator

- Percentage of energy from renewable sources

4.3. Pillar III: Health and education

Health

With the lowest healthcare spend in the Western hemisphere and a high rate of disease, Haiti's health system was already stretched and ineffective prior to the earthquake. Yet rebuilding the country is dependent on not only providing immediate health services to earthquake victims, but creating a strong national healthcare system that can ensure a healthy population is available to contribute to economic activity and society at large. With over 80% of health services delivered by NGOs and the private sector, a clear management, governance and regulation system needs to be put in place, one that balances control and standards, with flexibility and innovation in delivery.

Outcome	18 months	3 years	5 years
Incidence of communicable diseases	Rates of air and water-borne communicable diseases have returned to pre-earthquake levels	Rates of air and water-borne communicable diseases reduced by 33%	Rates of air and water-borne communicable diseases reduced by 75%
Infant mortality rates	At pre-earthquake levels	Rate reduced by 20%	Rate reduced by 50%
Maternal mortality rates	At pre-earthquake levels	Rate reduced by 20%	Rate reduced by 50%

4.3.1. Enhance provision of immediate health services to high-need populations. The earthquake has left hundreds of thousands of people in dire need of healthcare services and continuous care for physical and psychological injuries. Prevailing poor and cramped living conditions make the outbreaks of communicable diseases a constant and major threat. To address this urgent need, we outline the following initiatives:

1. Launch an emergency communicable disease surveillance system (Early Warning Alert and Response Network) that monitors, identifies and rapidly responds to disease outbreaks. This should be particularly focused on the IDP camps where water and airborne diseases can spread rapidly, particularly with the impending rain season. A central command and response center that leverages existing infrastructure supporting the camps is therefore required to note any upticks in infections noted, and then able to marshal an appropriate response. A national public health campaign on simple measures of control (e.g., washing hands) should be launched to support these efforts.
2. Implement group methodologies of post-traumatic stress support, given the low number of trained professionals who can conduct one-on-one sessions. Beyond providing required health services to the population, special attention should be given to psycho-social counseling and support to the range of victims. Support will be required to meet the 300,000 injured and 650,000 in shelters today.

3. Provide dedicated support to maternal and child health initiatives such as child delivery and vaccines. Women and children are always the most affected populations as a result of catastrophes such as the earthquake.

Target indicators:

- Surveillance system and number of camps covered
- Number received psycho-social counseling and support

4.3.2. Move from one-off relief efforts to stronger healthcare systems. As the crisis subsides and the multitude of relief efforts fades, the existence of a cohesive healthcare system is critical for Haitians to receive adequate care in the medium and long terms. The GOH needs to begin planning for this transition by focusing on key areas across the healthcare system. We outline the following initiatives:

1. Human Resources for Health – Build Haiti’s health care human capacity:
 - a. Support the expansion of the community health worker model that Haiti has been on the leading edge globally. The model provides critical leverage to existing cadres of health care workers, creates local employment and increases general knowledge of medicine within the community.
 - b. Retain local medication practitioners and re-establish training schools to develop more. Already in an unfavorable position before the earthquake, Haiti will face the dual challenge of brain-drain for its trained medical staff as well as limited training capacity given damage to existing facilities. Funding for these institutions should be a priority, and the private sector could play an important role in developing for-profit models and scholarship programs.
 - c. Develop a certification/verification and oversight capability at the Ministry of health for external medical professionals and organizations coming to practice in Haiti. Ensure that clear efforts are made for knowledge and technology transfer to local Haitians.
2. Financing – Expand health care financing through insurance and private investment:
 - a. Create a health insurance scheme for all Haitians. Begin with a phased roll-out to first include captive sections of the population, (e.g., civil servants) and then expand out to include other populations. Utilize private management to drive cost effectiveness (and thus preventative medicine), quality provision and provider competition, particularly in urban areas. (Note: Rwanda *mutuelles* system may serve as model)
 - b. Develop and pilot test a Pay-4-Performance health model, based on purchasing agreements with providers for achieving minimum coverage rates with quality. The model recognizes the significant proportion of health service provision already being done by non-government entities (NGOs, private sector).
 - c. Increase government budgetary allocation for health to WHO standard 10-15% and use it transparently.

3. Governance: Improve governance by creating a strong coordination mechanism between government which primarily provides oversight and regulations; NGOs and private sector who provide services to the population; and, donors who finance both on- and off-budget health service delivery.
4. Supply chain – Integrate private provision and local manufacturing in supply chains:
 - a. Establish and select private sector delivery and management of medical products, and encourage and give preference to local manufacturers and suppliers of medical products. Private provision will support efficiency.
 - b. Establish government regulation and oversight procedures to ensure quality, access and equity of private provision.
 - c. Develop an aggregation mechanism that allows for consolidated buying of supplies, such as essential medicines. Procurement is currently fragmented amongst government, donors, NGOs and private sector actors, eliminating opportunities for economies of scale and savings for all actors.
5. Infrastructure – Build and establish basic care services with strong referral mechanisms that can escalate cases up to secondary and tertiary facilities. Link facilities with emerging nucleuses of economic activities, particularly the industrial parks and economic zones, where private or employee-focused clinics can also serve the surrounding public.
6. Health Information – Building on the early warning system developed in the post-earthquake recovery, extend information gathering and management system. Ensure analyses and recommendations generation at the local level. (Note: Tanzania's *TEHIP model* may serve as model)

Target indicators:

- Number of community health workers
- Medical practitioners trained
- Population served by facilities

Education

The education sector faced significant challenges even before the earthquake: limited early childhood education available; only half of school-aged children enrolled in classes; and, barely 1% of Haitians attending tertiary schools. Approximately 70% of students fail national tests, and those that pass are not necessarily prepared to be productive participants in the economy. Similar to the health sector, less than 20% of education services are provided by the Government, with the largely unregulated private sector and NGOs dominating.

With children not in schools, the need for action is urgent and immediate. The private sector, donors and public sector must immediately inject financing and contributions to get schools operational and structures rebuilt. Haiti needs to rebuild the estimated 2,500 to 3,000 schools that were damaged. More fundamentally, Haiti must overhaul the education system to increase access and affordability, improve quality and provide a pathway to productive roles in the economy.

Outcome	18 months	3 years	5 years
Access	National student enrollment in primary schools reaches pre-earthquake levels	National student enrollment in primary schools at 75%	National student enrollment in primary schools at 100%
Quality	Number of students passing national exams at pre-earthquake levels	Number of students passing exams at 50%	Number of students passing national exams at 75%

4.3.3. Provide immediate and longer-term access for all students. There is a lack of facilities and infrastructure to get students back in school. Facilities need to be reconstructed or developed, and quickly. Fees are still prohibitive to enable broader student access, particularly girls. We therefore outline the following initiatives:

1. To support reconstruction efforts in the immediate term, identify large-scale prefabricated options that can help the schools re-establish their physical infrastructure. Prioritize and fund rubble removal on former school locations and provide temporary public locations to make land available for temporary schools.
2. Develop a voucher system to improve enrollment and achieve universal basic education. These vouchers – and all other government benefits – should be distributed in the more efficient way possible, namely through a pre-paid card system such as those used in Brazil and India.
 - a. In the near term, the voucher system will provide the basis for a demand-driven approach to getting students immediately back in school. Schools with collected vouchers can receive concessional financing or grants to procure basic supplies and start re-establishing programs immediately.
 - b. In the medium-term, the voucher system will create a competitive market that favors quality schools and potentially reduces cost of education per student, helping to address gender balance. Partial vouchers requiring student and institutional co-pay will maintain performance incentives and allow targeting of least able to pay.
 - c. Local Haitian private sector investment, and possibly management of educational institutions, will help build capacity, improve quality and scale high-performing institutions.
3. In new economic zones outside Port-au-Prince (e.g., the industrial parks), integrate schools as part of the services available to the population.

Target indicators:

- Schools re-established and re-built

- Students in classrooms
- High performing schools expanding enrollment

4.3.4. Improve the quality and oversight of the education system. Haiti's education system requires improving teacher and institutional quality and adding appropriate incentives and accountability. More specifically, we outline the following initiatives:

1. Under the Reconstruction Development Agency, establish an Independent Service Authority (ISA) to set performance standards, evaluate institutions, license institutions and provide direct funding. Student performance on national tests can be tracked to specific institutions providing information on institutional quality. Enforce closure as appropriate, and reward high-performing institutions to support scale and replication.
2. Provide support to improve the teacher training and certification programs, with a focus on rebuilding and improving Port-au-Prince teacher programs.
3. Revisit curriculum and national tests to ensure alignment with country and economic needs. Involve private sector in curriculum review committee.

Target indicators:

- Curricula and tests revamped
- Teachers enrolled in training and certification programs
- School and teacher evaluations performed

4.3.5. Prepare students for economic opportunity. The Haitian economic vision outlines globally competitive industries in agriculture, garments, construction, tourism and eventually business process outsourcing. To meet the needs of those industries will require significant skills, particularly at the middle to upper management ranks.

1. Create vocational institutes as critical parts of each economic growth pole. Fund programs through specific sector tax (e.g., 2% Taxe d'Apprentissage) or through private employers, and develop curriculums in consultation with industry to ensure graduates have the requisite skills to meet job requirements. Locations include:
 - Agriculture satellite programs in Artibonite Valley
 - Garments around North, South and Port-au-Prince industrial parks
 - Tourism school in the North

Target indicators:

- Vocational schools established
- Graduates employed

4.4. Pillar IV: Housing and economic security

The GOH aims by May 31st to have coordinated donor efforts and ensured that each Haitian is living in a very basic shelter (tents, water-resistant tarps, etc). It is of the utmost urgency to move Haitians into permanent – and safer, with the rains and hurricane season approaching – housing, in order to prevent the creation of slums with abject living conditions and to discourage Haitians from remaining in Port-au-Prince. Building housing outside of Port-au-Prince, matched with job creation, is critical for the success of decentralization.

As new housing structures will be one of the greatest asset reserves for most Haitians, constructing clear plans to translate housing into economic security is needed for Haitians to fully benefit from the reconstruction efforts. Creating permanent housing is not just providing shelter but creating an asset that leads directly to the creation of a long-term middle class upon which this vision rests.

Another important strategy for the inclusion of Haitians within the financial system rests on bringing increased numbers into the banking system, and allowing them to develop financial histories. The use of pre-paid card systems for the distribution of any housing benefits can successfully link an increased number of Haitians to bank accounts. Mobile banking solutions should also be encouraged for their significant potential to increase the number of bank accounts at low-cost.

Outcome	18 months	3 years	5 years
Housing provision (with access to basic infrastructure)	100,000 permanent housing units built; 25% of salvageable structures rebuilt	250,000 permanent housing units built; 75% of salvageable structures rebuilt	400,000 permanent housing units built; 100% of salvageable structures rebuilt
Land rights	50% of land parcels have clear titles and deeds	100% of land parcels have clear titles and deeds	100% of land parcels have clear titles and deeds
Ownership	80% of housing units are owned with mortgages	80% of housing units are owned with mortgages	80% of housing units are owned with mortgages
Employment	500,000 jobs in construction	500,000 jobs in construction	500,000 jobs in construction
Regionalization	80,000 units of new housing created outside PaP	180,000 of new housing created outside PaP	250,000 of new housing created outside PaP
Environmental sustainability	20,000 new housing units created with green building features	50,000 new housing units created with green building features	80,000 of new housing created with green building features

4.4.1. Build permanent housing. The goal of the government is to provide safe, secure and plentiful housing for displaced Haitians. After the 150,000 most at-risk are given tents and tarps, and the further

150,000 relocated to the suburban areas of Port-au-Prince, the government will have to provide permanent housing for over 1.2 million people, which is estimated at approximately 250,000 units. Of these, 80% or 200,000 will be low-income housing and will cost approximately \$2B (at \$10,000 a unit). The remainder is estimated at \$1.8B (at \$36,000 a unit). The government will have to pay significant costs in land development and infrastructure provision, and will need donor support in the short term. Besides the cost of housing construction, an additional \$700M is estimated for community infrastructure and \$45.1M for strengthening institutions, providing training and encouraging local firm participation⁴. In order for this housing to be built as quickly and safely as possible, we outline the following initiatives:

1. Establish clear land rights and adjudication system (as outlined in section 4.1.5).
2. Work closely with private landowners to get housing development initiated. Establish fair value, but immediate transactions for government to take ownership and develop public housing and create tax and financing incentives for private development, with a requirement for mixed middle class housing and public-subsidized poor housing. With limited government-owned land near Port-au-Prince, it is a priority to get land ready for housing development.
3. Establish building codes that correlate to the seismic and hurricane-prone conditions of the country to ensure safe housing, adopting the codes from countries facing similar conditions in order to speed the process. Additionally, ensure the code incorporates "green" environmental sustainability.
4. Identify the builder of record when giving land titles, construction permits or mortgages. Builders should be held accountable for the quality of construction with clear penalties for violating construction code. A government corps of inspectors should be charged with enforcement.
5. Offer incentives to build in an environmentally sustainable way. Incentives might include: (a) preferential financing terms; (b) import duty exemptions; and /or, (c) subsidies financed by donors, possibly OPIC and the EXIM bank.
6. Reduce transaction costs associated with notary and other fees, which are currently set as a percentage of total transaction, and place a cap on the maximum amount.

Target Indicators:

- Number of permanent housing units created
- Number of housing titles with clear ownership distributed

4.4.2. Redraw the map of Haiti with housing matching job creation. Although the nearest-term priority for housing revolves around the immediate at-risk populations in Port-au-Prince and those displaced, the foundations for decentralization should be laid with housing as soon as possible. To this end, we outline the following initiatives:

⁴ Competitiveness Working Group costed initiatives include building advocacy capacity of AHEC (\$350K), subsidizing memberships in regional and international associations (\$100K), upgrading capacity of technical schools (\$1M), providing vouchers for training school (\$10M), encouraging OTJ training through strategic subcontracting (\$5M), putting in place a financial guarantee fund and reducing bonding requirements (\$25M), establishing equipment leasing program (\$500K), small businesses set asides (\$100K), requirements for local firms and labor (\$100K), FDI campaign to attract specialized anchor firms (\$500K), development of zoning plans (\$1.5M), elaboration of construction standards and norms (\$250K), "Haiti home" design competition (\$250K).

1. Require that permanent housing be constructed in the new industrial zones in the north and south, and outside of Port-au-Prince as they are developed, and reduce taxes for companies willing to build housing for their workers. The private sector can play a role in providing housing for employees and planning for that housing in tandem with business-related developments.
2. Provide financial support to those Haitians who have taken in displaced people from Port-au-Prince, and provide the internally displaced persons with access to permanent housing in the regional cities and provinces as it is rolled out.

Target indicators

- Number of housing units outside Port-au-Prince created

4.4.3. Build a functioning mortgage market for the middle class. Housing will likely be the most significant asset for the majority of Haitians. Developing financing mechanisms for as many Haitians to access housing as a home-owner should be a top priority. With 65% of Haitians paying either mortgage or regular rent before the earthquake indicates that a majority of the population may be able to participate in housing financing schemes, if constructed appropriately. In order to make this a reality, we outline the following initiatives:

1. Establish the fundamentals for a mortgage market: clear land titles, simple and further reduced-fee registration procedures, enforced build codes and regulated insurance providers.
2. Initiate government-led or public-private partnerships to develop properties, including land development, basic infrastructure, roads, water and sanitation.
3. Provide financial products, and potential guarantees financed by donors and GOH bank for mortgages, for the middle class, lower-middle class and civil servants who can take on a partial mortgage.
4. Develop, in consultation with the commission of engineering and financing experts, a menu of prefabricated, expandable housing choices (ranging from a 14 square meter structure costing 14,000 USD to a 2 bedroom, 43 square meter house costing 30,000 USD with additions possible). Develop associated mortgage plans for the middle classes to choose from to finance these houses.
5. Encourage Diaspora investment in new housing units by (a) changing the law to allow ownership (Noted in Pillar 5 below); and, (b) creating financial products in the US (through international banks or Haitian banks with a U.S. presence) to secure local mortgages for families with limited current assets or payment ability.

Target indicators

- Number of new mortgages issued
- Amount of Diaspora investment attracted

4.4.4. Create ownership opportunities for the poor. A significant number of Haitians have lost their homes, assets and livelihoods. Any housing program will require developing publicly-supported options for those who have limited or no potential for current payment. Nonetheless, where possible,

ownership and some payment should still be a priority to ensure maintenance of buildings, create economic opportunity and more broadly preserve the integrity of a housing market. Monthly financing of an \$8,000 unit amortized over 20 years with zero interest rate amounts to \$33 a month, or 33% of the monthly revenue of a family with minimum wage earnings of \$5 a day. We outline the following initiatives:

1. Create clear rules, incentives and financial arrangements for availability of subsidized housing. Priorities should include: minimizing distortion in the housing and mortgage markets, creating incentives and requirements for private development of mixed middle and lower class housing; setting fair financial arrangements with a focus on ownership; and, avoiding conflict with the rural poor who may have been displaced by previous disasters and seek government-financed housing. To ensure appropriate integration of middle class and social housing, developers can reserve a portion of land allocated to each housing development project to social housing supported by government subsidy.
2. Secure donor commitments to finance the construction of permanent shelters for those who cannot afford their own. Where land is available, most likely outside of Port-au-Prince, develop 1 room, pre-fabricated houses, which have the ability to be expanded at a later date. As Port-au-Prince is rebuilt, develop multi-story, multi-family buildings.
3. Provide opportunities for home ownership recognizing current financial position of potential occupants:
 - o Provide housing for those currently unable to pay, but track occupants and establish a reasonable monthly payment in a lease-to-own model when a source of income is identified, either through remittances or a job.
 - o Allow the option for residents to assist in the construction of pre-fabricated homes – assembling structures under the supervision of a construction company – in exchange for a down-payment or full ownership.
4. Create a rental voucher system for housing outside of Port-au-Prince. Monthly vouchers, in full or partial, will create incentives for decentralization and stimulate private development for rental properties. Similarly to education vouchers, housing vouchers should be distributed through a pre-paid card system linked to a bank account to ensure maximum efficiency and bring more Haitians into the banking system.

Target indicators

- Percentage of most vulnerable housed
- Percentage of most vulnerable on track to ownership (with payment plan or lease-to-own program)

4.5. Pillar V: Governance and institutional capacity

Successful and effective reconstruction will require the legitimacy and support of the people. More broadly, it will require a well-functioning civil society and set of institutions. Haiti has made considerable progress and a solid commitment to free and fair elections. Yet, political stability and security, supported by MINUSTAH, is at risk of eroding after the earthquake. The government has lost an estimated 10% of civil servants, as well as a significant amount of the physical government buildings. The fiscal revenue base needed to administer the government has disappeared as well.

Despite these challenges, there is a unique opportunity to fundamentally reform the relationships and dialogue that underpin our society. We believe that it is critical that a **New Social Compact** emerge that broadly involves government, civil society, and the private sector – from the large businesses to the informal traders – across Port-au-Prince and throughout the country. At its core, the New Social Compact will support free and fair elections, free enterprise and a commitment to individual political and economic freedom. Only then will we be able to have the mutual trust, respect and dignity to create a society with government accountable to the people, and a private sector serving the people.

Outcome	18 months	3 years	5 years
Elections	Free and fair elections	NA	NA
Fiscal Revenue Base	9% of GDP	12% of GDP	15% of GDP

4.5.1. Commit to elections and political stability. The earthquake has created significant electoral challenges. Voters have been displaced, finding themselves in new electoral zones, and many have lost their voting cards. The registration process has been disrupted and new voters turning 18 have not been added to the voter roll. Nonetheless, while the earthquake has delayed parliamentary elections, we believe it is imperative to maintain free and fair elections in a timely manner. Presidential and Parliamentary elections should proceed in due course, with MINUSTAH support, by the end of 2010 or at the latest by early 2011.

More specifically, we outline the following initiatives:

1. Build a general consensus in the country to avoid creating a provisional government, and specifically to refrain from government decrees and to avoid impeachments of ministers before elections.
2. Fund and reconstitute the Electoral Council to immediately begin preparing for elections.
3. Hold election by the end of 2010, or at the latest by early 2011, using pragmatic means for a free and fair election:
 - a. Allow voter registration where voters currently reside, in order to accommodate displaced persons.
 - b. Provide a provisional voting card to be collected at polls.
 - c. Use finger dye to ensure integrity of vote.

4.5.2. Expand the fiscal revenue base. In order to move from aid dependence and provide the public services required to achieve our vision, Haiti must develop a sustainable fiscal revenue base that is broad, fair and equitable. Currently, the fiscal revenue base is 9% of GDP, when a reasonable target is estimated at 16-18%. To achieve this target will require a renewed climate of accountability and transparency from both the government and the private sector. This mutual accountability should be centered around the private sector's commitment to full tax compliance and the government's commitment to meeting minimum service levels and managing budgets, decision-making and funding in full transparency.

To fulfill that commitment, we outline the following initiatives:

1. Immediately reconstitute revenue collection with the capacity to administer, collect and enforce appropriate taxes and duties, potentially creating an e-payment system which channels payment of taxes through private banks to the BRH.
2. Initiate a new tax contract between government and the private sector. The plan should be guided by the following principles: creating a level playing field, ensuring no unfair competition, providing an appropriate and specific time period for adjustment, and managing fiscal obligations transparently and responsibly. In order to achieve full compliance and an expanded fiscal revenue base within 5 years, a special monitoring procedure with penalties for non-compliance, as well as a program to support formalization of businesses, should be instituted.
3. Reduce corporate income tax level from 30% to 20% and create a flat tax rate. Lower taxes will stimulate more investment for job creation and economic growth, and a simpler tax code will improve declaration, enforcement of taxes and allow the significant current cost of preparation to go to the government.
4. For SMEs, where feasible, provide estimated taxes based on revenue or product sales in order to begin to encourage a culture of compliance and commitment to government support.
5. Reduce the gap between imports across the Dominican Republic border and duties collected, currently at an estimated 20%, through revamping customs administration and collection.
6. Set, monitor and make public government service levels, possibly through a website. Public awareness of improved service levels, particularly in health and education, will improve private sector commitment and confidence in expanding the fiscal revenue base.

4.5.3. Build a modern government and increase administrative capacity. Building a modern government requires both fundamental legal reform and increased administrative capacity to serve a new Haiti. We outline the following initiatives:

1. Fund and support Parliament in order to increase the public discourse and deliberation over specific proposals. Funding should be allocated to:
 - Provide technical support to Parliament in order to conduct technical research on issues;
 - Provide frequent, public hearings, including make sure they are public accessible through television and other media;

- Allow testimonies to provide open dialogue with the public; and,
 - Support independent think tanks and institutions to submit reports and briefs to parliament.
2. Recognizing that a comprehensive constitutional reform is a significant undertaking, focus on building a general consensus around two specific issues:
 - Allow dual citizenship to enable voting, elections and land ownership and more broadly, to bring the resources and expertise of the Diaspora back to Haiti.
 - Change the electoral cycle to every 5 years instead of every 2 years, in order to enable the elected to fulfill their roles appropriately and with continuity, and to reduce expenses.
 3. Reform and rethink government to focus resources and improve services. Specific actions include:
 - Consolidate and refocus ministries where appropriate.
 - Institute a Results-Based Management initiative in critical ministries, setting clear service level targets and holding leadership and staff accountable.
 - In exchange for Results-Based Management, increase pay and training to make civil service a more attractive and professional career path. Involve the private sector, civil society and donors in defining, delivering and financing the training of civil servants to create regular interaction points and learning opportunities.
 4. Decentralize government functions, such as the Central Bank and Revenue Authority, to match the new regionalization of Haiti. In particular, increase the resources and capacity of the local Delegates.

4.5.4. Create opportunities for sustained public-private dialogue and collaboration. A New Social Compact must have a commitment to accountability and transparency from government, civil society and the private sector. Sustained dialogue will be a critical part of building that trust. Dialogue can be reinforced by specific opportunities for collaboration and working together. We outline the following initiative:

1. Representation on oversight boards. Where possible, government and the private sector should serve together on oversight boards of public organizations, including among others:
 - Social Security: private sector to represent their contributions to their employees' pensions.
 - Regional Development: private sector to contribute investment expertise in the economic development poles.
 - Independent Service Authorities (ISAs) for health and education: private sector to provide oversight.

4.5.5. Govern the reconstruction responsibly and effectively. We support the creation of the Interim Haiti Recovery Commission (IHRC) and the Haitian Development Authority (HDA), as proposed by the international community. We believe the following principles are important guidance for the final governance and organizational design:

- Haitian ownership and leadership
- Legality under Haitian law and constitution
- Broad representation, including the private sector
- Regionalization, not just nationalization
- Sustainability of efforts beyond the donor response
- Focused donor efforts not broad efforts
- Capital and risk sharing between public and private sectors

With these principles as guidance, we outline the following considerations for the governance, organization and operation of the IHRC and HDA:

1. Private sector representation on the board
2. Multi-donor trust fund managed by trusted international institution
3. Mandate to include:
 - a. Land adjudication;
 - b. Solicitation of managed contracts for critical infrastructure with national and international bidders; and,
 - c. Oversight of health and education private providers through Independent Service Authority (ISA);
4. Establishment of Regional Development Authorities – consisting of local Delegate, local chambers of commerce, private sector, civil society and donors – as advisors to IHRC board and local administrator of HDA;
5. Upon end of mandate, transition HDA to Autonomous Economic Development Agency to continue coordinated national and regional planning and implementation of government policy.

5. Roadmap

5.1. Integrated projects in proposed economic growth poles

Building back a better Haiti will require significant investment in infrastructure. The core of this infrastructure investment should be allocated to building the three new Economic Growth Poles in addition to rebuilding and reviving Port-Au-Prince.

Outlined below are initial estimates for the core infrastructure investments required to build a decentralized and competitive new Haiti. These are based on very preliminary estimates for investment by stakeholders involved in each sector, and do not reflect detailed feasibility studies. These investments also do not address the significant investments required in national programs – including health, education, institutional reform, SME investment and guarantee funds – necessary to support Haiti's reconstruction and development.

The infrastructure investments outlined below have significant investment and economic return potential. Many of the investments may be driven by private investment with public participation or risk mitigation; the most significant of which, housing, may have returns from individual mortgage or rental income. Together, these investments create a new Haiti with strong potential for economic growth and significant job creation.

5.1.1. Northern Economic Growth Pole

Forming a triangle between Labadie, Ouanaminthe and Port-au-Prince, the Northern Economic Growth Pole has significant potential to support rapid economic growth and employment focused on Agriculture, Tourism and Garments. There is the potential to create more than 100,000 jobs and improve the livelihoods of hundreds of thousands in agricultural supply chains. Investment required is estimated at over \$1.8B, not including the basic service delivery that must accompany the economic development investments.

More specifically,

- To the South and West of Cap Haitien exists a tremendous tourism potential around the Labadie beach resort – leased and managed by Royal Caribbean Cruises – and the proximate UNESCO World Heritage Sites located within the National History Park. These resources have the potential to attract 1 million visitors per year generating thousands of jobs in tourism and related cultural, music, dance, art and artisanal areas.

- On the road between Cap Haitien and Port-au-Prince lie some of Haiti's most fertile lands within the Plateau Central, with the mid-point located 3 hours away from either end-point. Commercial farming operations and greenhouses can be developed in the Plateau Central for both export and domestic markets. Potential employment and improving livelihoods estimated in the hundreds of thousands in agricultural supply chains.
- The area East of Cap Haitien and through to the border with the Dominican Republic is well-suited for the expansion of the garment industry, which currently employs just 10% of the total quota allowance under HOPE II (25,000 in 2009 versus a potential 250,000). An existing industrial park investment located in Ouaname can be expanded and a new industrial park added in the North. The Competitiveness Working Group estimates that 120,000 new jobs can be created in the garment industry over the next 5 years with a \$257M investment⁵. The majority of these new jobs can be housed in the Northern Economic Growth Pole to leverage synergies with Tourism and Agriculture.

The following table summarizes investments needed for the development of the Northern Economic Growth Pole, estimated at more than \$1.8 billion.

Investment requirement	Estimated investment
International airport In Cap Haitien to serve both tourists and cargo, particularly back-haul of perishable agriculture on passenger flights. Runway of 3,000 meters to allow long haul flights to take off.	\$35M
Deep-water port At Fort Liberte with license and capability to handle containers	\$140M
Industrial park Investment in Fort Liberte on government land	\$140M
Energy investment Near Industrial Park	\$20M
Construction of gravel road Linking Labadie to Milot and the Citadelle via Acul du Nord, with a dock at l'Acul du Nord	\$1M
Renovation of road Between Labadie and Cap Haitien [Assumes 100,000 per km for 10 km for gravel road]	\$0.7M
Development of the National History Park With modern facilities to accommodate large numbers of visitors	TBD
Housing development For 100,000 units around industrial zones and tourism, including 80,000 low-income units [Assumes 80,000 units at \$10,000 each and 20,000 units at 36,000 each]	\$1.5B

⁵ Competitiveness Working-Group costed investments include: 3 new industrial parks including investment or operating incentives (\$300M), re-build existing firms, and covering losses (\$36.8M), supporting the establishment of full-service product development firms, such as TC2 or Astralis (\$5M), establish 2 new training institutes capable of training 200-400 persons every 8 wks, possibly with Senai-Cetiq (\$10M), re-opening CHF / USAID training institute, launching a full-scale marketing campaign to attract business to Haiti (\$5M over 5 years), improve laws regarding truck transit from DR to Haiti (\$150k), revising labor laws to allow for more flexibility with shifts (\$150k).

Wholesale market and related investments Central hub located near Fort Liberte Port for triage of produce between export and domestic markets, with related investments in processing and supply chain (collection, transportation and information networks).	TBD
Irrigation, rural infrastructure, and watershed management projects In Plateau Central, particularly around road between Cap Haitien and Port-au Prince [Assumes 20% of total irrigation and rural infrastructure envelope estimated at ~100M by IDB and 20% of total watershed management costs estimated at ~\$250,000 by IDB]	\$20M

Some of these investments have already been funded and are under development. For example the road linking Labadie to Milot and the Citadelle is being built by CHF and MarChE, with USAID funding, and is expected to be completed by summer 2010. But all outlined investments must take place in order to take advantage of the significant synergies offered by the combination of the agriculture, tourism and garment clusters in the Northern economic growth pole.

5.1.2. Artibonite Valley and Saint Marc Peninsula Economic Growth Pole

The Artibonite Valley and Saint Marc Peninsula offers the potential to transform Haiti's Agricultural production as well as create thousands of jobs in the Tourism industry. Investment required is estimated at over \$300m, not including the basic service delivery that must accompany the economic development investments.

More specifically:

- The Artibonite Valley is Haiti's breadbasket as well as the most protected from natural disasters due to the distance from the Northern and Southern fault lines and protection from hurricanes. Successful agricultural development in this area can ensure that the fertile lands of the Artibonite achieve their potential yields in production of staple crops such as rice, maize and potatoes, and improve rural livelihoods.
- The Saint Marc peninsula offers pristine beaches just 75km from Port au Prince.

The table below summarizes some of the primary infrastructure investments needs for the development of the Artibonite Valley and Saint Marc Peninsula Economic Growth Pole.

Investment requirement	Estimated investment
Expansion of road From Port au Prince to Saint Marc to 4 lanes. [Assumes \$1M per km on 100km stretch]	\$100M
Housing units 10,000 units related to tourism and agro-business [Assumes 8,000 units at \$10,000 each and 2,000 units at 36,000 each]	\$152M
Irrigation, rural infrastructure, and watershed management projects	\$50M

[Assumes 50% of total irrigation and rural infrastructure envelope estimated at ~100M by IDB and 50% of total watershed management costs estimated at ~\$250,000 by IDB]	
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5.1.3. Southern Economic Growth Pole

The Southern Economic Growth Pole centered around Les Cayes has the potential to support rapid economic growth and employment Agriculture, Tourism and Garments. There is the potential to create more than 50,000 jobs and improve the livelihoods of hundreds of thousands in agricultural supply chains. The initial investment is estimated at over \$1.1B to \$1.4B (depending on transshipment port), not including the basic service delivery that must accompany the economic development investments

More specifically:

- The Les Cayes area benefits from land availability and significant rainfall of 2,000mm per year, and has been one of the leading areas in Haiti for the production of premium coffee, maize and fruit. The area around Jeremie is one of the few with agricultural surplus in Haiti, but currently isolated from national infrastructure that would allow effective transfer of surplus to consumption centers.
- Strips of non-stop world-class beaches to the South of the Peninsula, including a 20km strip between Aquin and Cote de Fer could attract hundreds of thousands of visitors and offer an extension of the cultural tourism offered in the North and an add-on for visitors of Port-au-Prince.
- The South may offer the highest potential for a trans-shipment port given the limited deviation from neighboring countries, which would drop rates and provide a strong advantage in terms of industrial development. An economic export zone with 1 one or 2 industrial parks could employ 50,000 or more in the garment industry around Les Cayes.

The table below summarizes some of the primary investments needs for the development of the Southern Economic Growth Pole.

Investment requirement	Estimated investment
<i>Deep water port</i> At Baie du Mesle. Possibility of a trans-shipment port with significant benefits to local shipping costs and job creation.	\$140M [\$400M]
<i>International airport</i> Near Les Cayes, including extension of runway from 1,000 to 3,000 meters.	\$75M
<i>Industrial Park</i> Investment near Les Cayes. Location to be determined	\$100M
<i>Energy investment</i> Near Industrial Park	\$20M
<i>Housing development</i>	\$760M

50,000 units around industrial zones, tourism and agri-business. [Assumes 40,000 units at \$10,000 each and 10,000 units at 36,000 each]	
Gravel roads Between Jeremie and Miragoane to link areas with agricultural surplus with national and export infrastructure [Assumes \$100,000 per km for 250km]	\$25M
Wholesale market and related investments Central hub located near Baie du Mesle Port for triage of produce between export and domestic markets, with related investments in processing and supply chain (collection, transportation and information networks).	TBD
Irrigation, rural infrastructure, and watershed management projects [Assumes 20% of total irrigation and rural infrastructure envelope estimated at ~100M by IDB and 20% of total watershed management costs estimated at ~\$250,000 by IDB]	\$20M

5.2. Sequencing of initiatives and investments

A successful Haiti in the long-term depends on swift and coordinated action in the short-term. While the outcomes of the proposed strategies have been split into 18 month, 3 year and 5 year horizons, government and private sector action must take place much more quickly to make these outcomes a reality. Because many of the recommended initiatives are interdependent and will take time to take effect, we've sequenced the priority actions that must be undertaken in the next 3, 6 and 12 months. In principle, the immediate priorities must be job creation and financing the entities that make that possible. After business has been initiated, planning for and financing the next wave of investment that will lift the Haitian economy in the long-term will become the focus.

Investment in the Economic Growth Poles will also need to be sequenced to ensure that job creation can rapidly be generated beyond construction, with immediate jobs created in agriculture and targeted investments to ensure that jobs in garments and tourism can be created within the next 1-3 years. The Northern Economic Growth Pole should be prioritized as an integrated package since it has the highest potential for job creation across all sectors, as well as existing infrastructure to build on. Investments in the Artibonite, where costs are lower, should also be initiated to ensure job creation in agriculture. The Southern Economic Growth Pole can begin with investments to better link with Port-au-Prince, while the full package of investments in ports and airport can follow later.

5.2.1. Three months

The only way for decentralization to occur, normalcy to return and the economy to recover is to prioritize all actions leading to job creation and satisfying immediate human needs. If we as a country do nothing else, we must accomplish the initiatives laid out in this section.

1. Job creation rests on helping businesses recover immediately so that they replenish inventories, rehire workers, and stimulate the economy. Immediate priorities are:

- (i) Keep loan capital flowing to existing SME through immediate set up of guarantee, insurance payouts and recapitalizing banks
 - (ii) Recapitalize and distribute microfinance to MSMEs and individual entrepreneurs as rapidly as possible
 - (iii) Pass legislation that allows for immediate job creation, such as the 3x8 legislation that will expand garment employment
 - (iv) Facilitate foreign direct investment in turn-key garment industrial parks, supporting private transactions as necessary
2. Food security must be linked to the immediate humanitarian efforts as a way to keep the agricultural market functioning, and anchor displaced people and the rural communities outside of Port au Prince.
- (i) Finalize arrangements with WFP to integrate food production into humanitarian efforts
 - (ii) Provide immediate financing for inputs in order to stimulate production through grants or microfinance institutions
3. In health and education, the spread of disease must be stopped and a return to normalcy for Haitian children prioritized.
- (i) Put in place the health Early Warning Alert and Response Network to better manage disease outbreaks
 - (ii) Provide immediate post-disaster medical services, including counseling and vaccines for women and children
 - (iii) Re-open schools immediately, providing supplies and temporary public land; prioritize and fund rubble removal at schools; initiate immediate rollout of the voucher system in order to create demand-driven approach to re-finance schools and maximize enrollment as soon as possible
4. Construction and housing will be a major short-term effort as an engine of job creation and decentralization. As long-term housing in the regions will coincide with the medium-term creation of industrial zones across the country. Immediate priorities are:
- (i) Undertake demolition and rubble clearing in Port au Prince, continuing the work-for-food programs
 - (ii) Establish fair value, but immediate transactions for government to take ownership of land for housing; provide private land concessions for commercial farming expansion
 - (iii) Facilitate private financing and management to bring the port serving Port au Prince back online as quickly as possible to facilitate import of construction and other material
 - (iv) Construct labor-intensive feeder roads that align with the planned economic growth poles in the North and Artibonite
5. Finally, executing on these priorities require immediate governance changes.
- (i) Create the Interim Haiti Recovery Commission (IHRC) as well as Regional Economic Development Boards to start planning and investment in each region

- (ii) Rebuild the Revenue Authority to begin rebuilding the fiscal revenue base
- (iii) Reconstitute and fund the Electoral Council to enable elections by end of 2010 or latest, early 2011
- (iv) Establish special adjudication court for land rights with a focus on addressing large tracts for economic development opportunities

5.2.2. Six months

As the economy begins to recover with short-term initiatives, the government must begin the hard work of planning for the future, and constructing the enabling environment for investment to flow into the country. Land rights need to be addressed more broadly for home ownership and human capital investments need to be made.

The Regional Economic Development Boards must turn their attention to planning the industrial park in each economic development zone, with an emphasis on bringing the North online as quickly as possible.

Priorities include:

1. Ensure a cadastre is created and land is available and titled; and adjudication court is operational, with specific emphasis on agricultural land and industrial parks
2. Finalize planning and feasibility studies for large infrastructure investments for each region as outlined above (i.e., ports, airports, etc)
3. Start farmer cooperative and organization development
4. Initiate turn-key Pay-4-Performance health models to fill current service gaps
5. Begin training of community health workers and teachers
6. Establish Independent Service Authorities for health and education with the mandate to begin the creation of systems, coordination and oversight
7. Begin the construction of permanent urban housing

5.2.3. Twelve months

In the six to twelve months after instituting the recovery plan, training and planning should be nearly complete, and the focus should be on executing investments and human services projects. The government must make sure financing is available for all medium and long-term initiatives, so plans can be realized and investors successfully attracted.

Major initiatives to be pursued in this execution phase are:

1. Create financial, land and import duty incentives to spur mid-level housing development and initiate decentralized low-income housing developments.
2. Prepare bidding for managed contracts of critical infrastructure (i.e., energy, ports, airports and potentially specialized customers collection processes)
3. Make financing available for targeted agricultural value chains

4. Create incentives for renewable energy and tree planting
5. Initiate construction of housing units in line with industrial park plans in the regions
6. Ensure mortgage programs and guarantees are in place to encourage home purchase and equity creation
7. Hold a national election to ensure legitimacy and that there are no legislative bottlenecks
8. Make funding available for building a modern government with Parliament support

Annex 1: Speech by Mr. Francois Guillaume Jr., Executive Director of Haitian-American Chamber of Commerce of Florida at *Etats Generaux due Secteur Prive*

The Haiti Earthquake of January 12, 2010 brought to global attention a broken social system brought to its knees by a natural disaster. We, as members of the Haitian Diaspora having attended the Sustainable Haiti Conference in Miami which occurred on March 17th to March 19th, present the following resolutions and framework of principles to the Private Sector Economic Forum's Vision and Roadmap, and seek your collaboration in our mutual goal to achieve long-term, sustainable growth in Haiti.

Haiti, an unthinkable unfortunate victim of the earthquake, has also suddenly entered a narrow window of amazing opportunity as it begins its efforts to rebuild all aspects of Haitian life. We are positioned to become a cutting edge model of environmentally sustainable innovation supporting the prosperous rebuilding of urban and rural Haiti, focusing on sustainable infrastructure and meeting the needs of all Haitian citizens. Also, Haiti has an opportunity to be a competitive, international partner in the development of environmentally sustainable technology, including innovations that address the needs for energy, food security, health care, housing, education and clean water and air.

In order to manifest this vision, we commit to collaborating on the following resolutions that were expressed during the Sustainable Haiti Conference:

1. Focus on the development of Entrepreneurship and investment in local ideas and the creation of Haitian infrastructure.
2. Involve the many diverse voices of Haiti in the creation of a new Haiti, especially the small farmer private sector.
3. Provide mentorship and support to local young entrepreneurs where needed.
4. Create a Haitian Diaspora Fund with lending practices that make Haitian businesses viable quickly and with minimal debt.
5. Develop formal job creation initiatives as a means to sustainable job growth and the enhancement of a viable tax-base for the government.

Further, we choose to achieve these resolutions using the following framework of principles:

1. Transparency and Accountability of stakeholders, the Haitian Diaspora, international donors and Haitian private and public sectors.

2. Inclusion and participation of Haitian-American organizations in the manifestation of the above resolutions.
3. Partnership with private Haiti-based firms.
4. Awareness and acknowledgement of government and private sector reconstruction plans.
5. Sustainability as a basic requirement for all projects.
6. Ongoing communication and engagement between all stakeholders who will remain engaged in this creation of a new Haiti.

We must seize this moment because it provides the opportunity to address a “Triple Bottom Line” of economic profit, social equity, and environmental preservation for Haiti. In supporting our beloved Haiti to become the best possible version of itself, we have the opportunity to honor our lost loved ones, and to provide hope and comfort to our surviving fellow Haitians.

On behalf of the Haitian-American Chamber of Commerce of Florida and the Diaspora as a whole, please receive the assurances of our highest consideration.

Annex 2: Speech by Mrs. Yanick Mezile, President of the Federation of Small and Medium Enterprises at *Etats Generaux du Secteur Prive*

Son Excellence Monsieur René Préal, Président de la République
 Son Excellence Monsieur le Premier Ministre Jean Max Bellerive
 Mesdames et Messieurs les membres du Gouvernement
 Distingués Sénateurs et Députés membres du Corps Législatif
 Monsieur le Dr RÉGINALD Boulos, Président de la Chambre de Commerce et d'Industrie d'Haïti et
 Coordonnateur du Forum Economique du secteur Privé
 Mesdames et Messieurs les représentants, Présidents et membres des différentes Chambres de
 Commerce, Associations et Organisations Patronales,
 Mesdames et Messieurs les membres de la Fédération Haïtienne des Petites et Moyennes Entreprises
 Mesdames, Mesdemoiselles et Messieurs,

S'il est vrai qu'en ce jour du 21 Mars, je me sens flattée et honorée de prendre la parole devant cette auguste assemblée, je n'en suis pas moins affligée par ce terrible séisme qui a frappé en plein cœur la capitale économique de notre pays. Ma présence ici devrait témoigner de la volonté du secteur privé haïtien, dit formel, d'ouvrir ses rangs, sans exclusion, au secteur des Petites et Moyennes Entreprises.

Déjà fragilisée par le passage en août 2008 de ces trois ouragans, Gustave, Anna et Ike, qui ont affecté plus de 165.000 familles, laissant derrière eux un bilan consolidé faisant état de 793 morts, 548 blessés et 310 disparus, Haïti devait le 12 Janvier connaître un autre fléau dont le nombre de morts s'évalue déjà à plus de 250 mille personnes.

S'il est vrai que le bilan des désastres enregistrés lors du passage de ces trois cyclones avait été évalué à 897 millions de dollars US, soit 14, 6 % du Produit Intérieur Brut du Pays, aujourd'hui nous parlons d'un refinancement de l'économie nationale au plus bas mot à hauteur de 14 milliards de dollars américains.

Dans cet ordre d'idée, nous avons au niveau de la Fédération des Petites et Moyennes Entreprises suivi avec un grand intérêt les travaux réalisés par le Forum Economique du Secteur Privé, entité à laquelle nous appartenons aussi grâce à notre affiliation à la Chambre de Commerce et d'Industrie d'Haïti (CCH). Nous avons compris combien, conscient de sa mission, le Forum a entrepris de procéder à une large consultation des différentes associations et chambres de commerce avant de présenter au gouvernement un plan qui pourrait nous conduire à bon port.

C'est d'ailleurs pourquoi nous appuyons sans réserve cette initiative qui ne peut et ne saurait avoir que des retombées positives sur notre économie.

Nous appuyons d'autant plus cette démarche que le secteur qui a été le plus touché par cette catastrophe est celui des Petites et Moyennes Entreprises déjà décapitalisée avant ce séisme par l'absence de structures facilitant les crédits à des taux simulables aux crédits bancaires traditionnels aux Petites et Moyennes Entreprises et la limitation des capacités de risque par les organismes bancaires existants. Cette absence de facilité de crédit s'ajoute à la limitation des programmes de formation pour nous, entrepreneurs comme tous les autres, mais marginalisés par des conditions de travail difficiles, en témoigne l'état de d'insalubrité et le manque de sécurité au niveau de nos marchés publics.

Depuis plusieurs années, nous dénonçons le principe permettant de surévaluer le montant des marchandises en douane appelé principe de la valeur en douane de Bruxelles. Aujourd'hui, sans crier gare, la catastrophe naturelle est venue nous frapper de plein fouet au cœur même de nos activités.

Cependant, si nous avons été si violemment atteints, notre esprit d'initiative et de combat n'en est que plus vivifié. Comme disait Corneille dans le Cid : A vaincre sans péril on triomphe sans gloire. Aussi, ce défi nous exhorte à nous resserrer les coudes et à engager ensemble ce combat qui est désormais le nôtre, ensemble entre nous, ensemble avec nous.

Face à cette globalisation des marchés qui transforme tout pays en un vaste marché, il est important que leurs agents économiques et plus particulièrement les membres du secteur des affaires s'unissent en un seul front pour pouvoir répondre de manière optimum à l'offre et à la demande sur le marché international.

Je me refuse à appuyer les motifs de cette unité sur le fait que la décapitalisation de la Classe Moyenne si elle n'est pas refinancée de manière responsable ne peut conduire qu'à la faillite économique de notre pays. Mais je préfère aujourd'hui parler d'un nouveau contrat social où l'on ne parlera plus du Secteur des Affaires composé de membres du secteur formel et informel, mais d'entrepreneurs à chiffre d'affaires importants et moins importants.

Bien sûr, cela va exiger des efforts d'organisation et de formalisation du secteur dit informel. En ce sens, je suis heureuse de vous informer que, grâce à la collaboration dont fait montre la Chambre de Commerce et d'Industrie d'Haïti, la Banque Interaméricaine de Développement a accepté de financer un projet visant au renforcement de la Fédération Haïtienne des Petites et Moyennes Entreprises et à l'identification de ses membres à hauteur de 284 mille dollars américains.

Suite à ces efforts, et conscients des défis qui nous sont lancés, nous voulons espérer que tout sera mis en place pour permettre aux institutions financières, moteurs de développement de toute économie, de mettre en place des facilités de crédit dans des conditions et termes acceptables favorisant l'expansion de nos activités et l'épanouissement de nos entreprises qui auront rejoints alors, sans discrimination le secteur des affaires. La baisse des taux d'intérêt qui freinent nos activités constitue la pierre angulaire de nos exigences. Suivant à une étude préliminaire réalisée par l'USAID, il semblerait que qu'au niveau du secteur des petites et moyennes entreprises seulement il y aurait des besoins de financement à

hauteur de 770 millions de dollars contre plus de 47 milliards de dollars pour tous les secteurs confondus.

Le fonds de garantie, proposé par la BRH ET LE Ministère de Finances, et les ajustements appropriés portés aux règles prudentielles devraient permettre aux banques commerciales de s'ouvrir aux Petites et Moyennes Entreprises sans augmenter les risques pour les institutions financières haïtiennes. Bien entendu, une politique fiscale réduisant le barème de l'impôt sur le revenu ainsi qu'une politique d'investissement clairement définie par le Gouvernement en la circonstance, devra favoriser la formalisation de ces PME.

Comme vous le comprendrez tous le défi est ici de taille et il est de notre devoir de laisser nos différents, nos objectifs personnels, et faire en sorte que le bateau arrive à bon port. Je laisserai ici le soin à tous nos grands techniciens de débattre de la complexité des problèmes à résoudre et d'y apporter des solutions adéquates c'est à dire au bénéfice du plus grand nombre.

Je tiens à leur dire qu'ils sont le pilier de notre nouvel Haïti. Nous sommes ici la porte parole non seulement de ces nombreuses associations affiliées à notre Fédération mais aussi de toutes ces familles qui ont été décapitalisées et qui se retrouvent à présent sans emploi, sans abri et sans perspectives pour demain. C'est pourquoi je vous le demande, chers techniciens, de garder à l'esprit la portée et la dimension de la mission qui vous est confiée aujourd'hui. N'oubliez pas que vous êtes l'appui sur lequel se reposent l'espoir et le rêve de toute une Nation. Aussi je vous dirai : Hâtez vous dans votre tâche mais accomplissez le avec intégrité et sérieux.

A nos amis financiers, je dirai de prioriser la rentabilité du nombre à la rentabilité du prix. Vous avez des possibilités d'affaires à hauteur de 47 milliards de dollars de portefeuille de crédit. Alors, pensez-y.

A nos chers entrepreneurs, je dirai que nous avons combattu de grands combats, mais que seulement l'unité dans la diversité aura raison de ce grand fléau. C'est probablement l'occasion de comprendre qu'il n'existe plus plusieurs classes d'affaires mais des entrepreneurs à chiffres d'affaires élevés, moyens et faibles, c'est-à dire des entrepreneurs tout court, travaillant ensemble à une augmentation du Produit Intérieur Brut qui n'est autre que la somme des valeurs ajoutée de nos entreprises.

Aux membres et Amis d'Haïti, nous voulons d'ores et déjà vous remercier pour tout l'appui que vous nous avez déjà donné. Nous voulons vous dire que nous apprécions cette collaboration et comptons toujours sur votre appui qui, nous le savons, vise à renforcer notre économie presque moribonde.

Finalement, je veux m'adresser à vous tous, car entrepreneurs ou pas, nous sommes tous Haïtiens, pour vous dire qu'aujourd'hui, la mémoire de ces deux cents mille morts doit nous interpeller pour nous rappeler que nous nous devons de réussir. Oui le défi est grand mais faisons tous de ces difficultés nos marchepieds pour crier ensemble sur le sommet de l'espoir, de l'espérance et de la délivrance : Non HAITI NE MOURRA PAS.

Merci

Annex 3: Speech by Mr. Reginald Boulos, Coordinator of Private Sector Economic Forum, at *Etats Generaux du Secteur Prive*

Son Excellence Monsieur le Président de la République,
 Son Excellence Monsieur le Premier Ministre,
 Mesdames et Messieurs les Ministres,
 Monsieur le Représentant Spécial du Secrétaire General des Nations Unies,
 Mesdames et Messieurs les Parlementaires,
 Mesdames et Messieurs les Membres du Corps Diplomatique,
 Mesdames et Messieurs les Présidents et Membres des Chambres départementales de Commerce ;
 Mesdames et Messieurs les Présidents et Membres des Associations et Organisations Patronales,
 Mesdames et Messieurs les Présidents et Membres de la Fédération des Petites et Moyennes Entreprises,
 Mesdames et Messieurs les membres du secteur privé des affaires tant de l'étranger que de l'intérieur,
 Chers Amis de la Société Civile,

Mesdames et Messieurs,

Je tiens d'abord à remercier tous les membres du secteur privé pour une journée de travail bien remplie. Vos idées, nos discussions et vos commentaires sont venus enrichir un travail entame depuis plus de 4 semaines par le secteur des affaires pour établir une vision et une feuille de route en vue de soumettre à l'exécutif Haïtien des propositions pour enrichir le plan national qui devra être soumis à New York le 31 Mars.

Monsieur le Président,
 Monsieur le Premier Ministre,

Votre présence ce soir traduit l'engagement de votre gouvernement à faire du partenariat public privé et du dialogue initié avec les différentes composantes du secteur des affaires un outil précieux dans la construction et la reconstruction du pays. D'ailleurs, nous pouvons affirmer que nous ne sommes pas à notre coup d'essai puisque le dialogue entame entre le secteur ouvrier, le secteur patronal, les parlementaires et votre Excellence ont permis l'année dernière de sauver l'industrie de l'exportation dans le cadre du débat sur le salaire minimum. Aujourd'hui plus d'un réalise que ce secteur qui travaille à plus de 80 % de sa capacité a montré une résilience et une résistance aux dégâts du tremblement de terre.

Mesdames et Messieurs,

Pour la première fois dans l'histoire de notre pays, un secteur des affaires uni, inclusif et modernisant a décidé de rompre avec les pratiques du passé et de formuler une vision et une feuille de route pour un développement durable du pays.

Cette feuille de route s'est enrichie aujourd'hui d'un débat critique mais constructif tout au long de la journée. Les conclusions de ce débat que nous remettons ce soir au Président de la République reposent principalement sur un élargissement de la classe moyenne, élargissement qui devra se traduire par la création de centaines de milliers de petites et moyennes entreprises animées par un esprit entrepreneurial, bénéficiant de l'accès au crédit et de l'élimination des barrières à l'épanouissement et au fonctionnement des entreprises

Notre vision pour le pays inclut des services sociaux de qualité, une sécurité sociale pour tous et un gouvernement fonctionnel à haute performance.

Nous rêvons d'une Haïti prospère basée sur une économie **Diversifiée, Verte, Compétitive et Vibrante**,

- **Diversifiée**, basée principalement sur une agriculture moderne et productive et offrant des opportunités à travers le tourisme, l'industrie marchande tant nationale que tournée vers l'exportation.
- **Verte**, faisant en sorte que toutes les démarches futures servent à réparer, à restaurer et à protéger l'écosystème du pays.
- **Compétitive**, basée sur des institutions performantes, une main d'œuvre qualifiée et un état moderne dans son fonctionnement et sa structure ;
- **Vibrante**, avec une croissance de 5% par an du PIB qui attire tant les étrangers que la diaspora à investir avec l'assurance d'un retour sur leurs investissements.

Cinq principes prioritaires doivent orienter toute les actions et décisions à prendre durant cette période de reconstruction.

- ***Leadership et responsabilité mutuelle de reddition de compte*** : *Il faut un leadership ferme et un partenariat solide entre les secteurs privés, civils et publics pour permettre au pays d'aller de l'avant*
- ***Décentralisation et croissance équitable***: *La croissance sociale et économique doit inclure toutes les régions du pays, tous les secteurs et toutes les couches sociales afin de réduire l'extrême pauvreté dans les zones rurales d'Haïti.*

- **Engagement à la modernisation**: Les secteurs privé et public doivent s'engager et être prêts à laisser de côté les façons de faire des affaires et de gouverner du passé.
- **Renforcement des capacités étatiques** : Les programmes de relance et de reconstruction doivent être menés à bien par un leadership haïtien. Les programmes d'assistance doivent renforcer les administrations de l'Etat au lieu de les affaiblir.
- **Indépendance de l'aide internationale** : Haïti doit viser à se reconstruire de telle sorte que la nouvelle nation soit de moins en moins dépendante de la communauté des bailleurs pour son financement et son soutien

La réalisation de cette croissance sociale et économique repose sur cinq piliers :

- les emplois et les opportunités économiques partagées ;
- l'agriculture et l'environnement ;
- la santé et l'éducation ;
- le logement et la sécurité économique ;
- la gouvernance et les capacités institutionnelles.

Il faut créer un environnement où les entreprises haïtiennes soient capables de surmonter la perte de leurs actifs et de leur clientèle en leur fournissant des prêts palliatifs pour couvrir leurs obligations immédiates. Cette action doit cibler principalement les Petites et Moyennes entreprises, communément appelées secteur informel. L'étude réalisée par le projet winner a montré que plus de 75 % des pertes du secteur privé, estimées aujourd'hui à près de 2 milliards de dollars, se retrouvent au niveau des PME, structurées et non structurées. Cette assistance devra aussi inclure un effort de formalisation élargissant l'assiette fiscale du pays afin d'augmenter les recettes fiscales.

L'agriculture joue un rôle vital dans l'économie haïtienne et dans la vie du peuple haïtien dont 60% vit dans les communautés rurales. Le développement de ce secteur offre une opportunité de croissance partagée et de création de richesses à travers tout le pays

Cette économie doit être avant tout agricole et décentralisée, soutenue par des centaines de milliers de PME ; elle devra être répartie dans les pôles géographiques de développement et de production identifiés ; elle devra bénéficier de l'appui de l'Etat Haïtien dans les 5 filières proposées par la Commission Présidentielle sur la Compétitivité, et supportées par le Président de la République et son gouvernement, soit l'agriculture, l'élevage, le textile, le tourisme et le logement et le développement urbain.

Notre programme comprend aussi un volet important sur l'éducation où tous les enfants auront accès à une école de qualité, tous les ouvriers auront reçu une formation professionnelle et où tous les haïtiens auront appris à aimer leur pays/

Si il est important que le secteur dit informel retrouve la voie de la régularisation, le secteur privé formel doit de manière formelle prendre l'engagement solennel de respecter les lois du pays et de faire face à ses responsabilités citoyennes et fiscales. Cet engagement doit être aussi supporté par une gestion transparente des ressources de l'état et la reddition des comptes.

Cet effort doit être complété par une bonne couverture policière et douanière des frontières nationales, des ports et des aéroports en vue de mettre fin à la pratique de la contrebande. Nous estimons que la sous évaluation et la contrebande coutent au pays plus de 250 millions de dollars par année.

En ce sens, nous appuyons les efforts du Gouvernement haïtien de doter le pays d'une administration fiscale moderne et efficace, avec une gestion plus transparente et plus rigoureuse des revenus de l'Etat. C'est la seule condition pour que nous puissions retrouver nos objectifs de faire passer la pression fiscale de 9 à 15 %. En ce sens, le secteur privé institutionnel travaillera à ses côtés pour promouvoir le respect des lois du pays et encourager toutes les entreprises du pays, des plus petites aux plus grandes, à faire face à leurs responsabilités citoyennes et fiscales. Nous profitons à ce sujet pour vous annoncer que l'exemple commencera par le Forum qui fera du plein respect des obligations fiscales une condition de participation de ses membres. Dans le même ordre d'idées, nous nous proposons de travailler avec le gouvernement pour une modernisation et une simplification du code fiscal, en se rappelant que trop d'imports tuent l'impôt.

Le partenariat **Social** que nous proposons aura à cœur de soutenir le renforcement de la démocratie, la libre entreprise et un engagement envers la liberté politique et économique individuelle. Aussi Permettez nous, Monsieur le Président, de vous dire, qu'à 10 mois de la fin de votre mandat, vous avez aujourd'hui une responsabilité historique de mettre ce pays, notre pays sur la voie de la démocratie en réussissant avec **crédibilité et légitimité** la mise en place des conseil d'administration des collectivités territoriales, d'un parlement fonctionnel et d'une passation de pouvoir réussie, qui renforce la stabilité et le climat de paix, condition essentielle à l'investissement et à la création d'emplois.

Aujourd'hui, il est urgent pour tous les secteurs du pays de :

- 1) Reconnaître mutuellement nos erreurs du passé et accepter que le 12 Janvier tout en étant une catastrophe naturelle et en fait un désastre créé par l'homme. Un séisme ne tue pas ; c'est l'effondrement des immeubles mal construits qui est bien la cause de tant de morts.
- 2) Travailler avec vous en vue de garantir la poursuite de la mise en place d'une gouvernance transparente et efficace dans un combat sans merci contre la corruption et l'application des règles du jeu égales pour tous ;
- 3) Accepter que c'est un devoir pour tous les citoyens et surtout les hommes d'affaires de remplir avec rectitude leurs obligations fiscales ;

- 4) Reconnaître que, durant plus de deux siècles, nous avons vécu un cercle vicieux de corruption, d'exclusion et de mauvaise gouvernance emmenant avec elle une culture d'évasion fiscale qui devra être remplacée par une nouvelle culture de responsabilité, de reddition de comptes et de solidarité inclusive;
- 5) Comprendre que le renforcement de nos institutions publiques, politiques et civiques est non seulement une responsabilité mais aussi une condition essentielle pour une gestion adéquate de nos ressources en vue de la provision des services sociaux de base soutenables par nos propres moyens et réduisant au bout de compte notre état de dépendance.

Ce n'est qu'à ce prix que nous pourrons avoir la confiance mutuelle, le respect et la dignité nécessaires à la création d'une société stable, prospère et harmonieuse.

Monsieur le Président,

Nous vous apportons nos idées, notre énergie, nos rêves pour enrichir celui de votre gouvernement en vue d'aboutir à un plan de développement national, réaliste et révolutionnaire. Nous sommes disposés, dans un partenariat solide et fait de respect mutuel, à vous apporter notre coopération en vue de réussir non seulement la démarche de recherche du support international mais aussi et surtout la mise en place de structures qui renforcent l'intégrité et le résultat de nos actions.

Je vous remercie.

Annex 4: Closing speech by H. E., President Rene Preval at *Etats Generaux du Secteur Prive*

Mesdames, Messieurs, chers amis,

Je suis heureux d'être avec vous ce soir et je remercie le Forum Economique du Secteur Privé de son aimable invitation et de l'occasion qui m'est offerte de vous dire quelques mots. Je serai bref, car d'après ce que j'ai cru comprendre, vous avez passé une journée entière à travailler, un dimanche de surcroît ; vous devez être fatigués.

Monsieur le Coordonnateur,

Mesdames, Messieurs les membres du Forum Economique,

Je vais prendre connaissance, avec beaucoup d'attention, de votre document de vision et de votre feuille de route. Je vous félicite de cette initiative qui augure bien du partenariat Public-Privé pour lequel beaucoup d'entre vous ont déjà tant travaillé.

Je ne vous rappellerai pas les statistiques que vous avez, toutes et tous, entendues à satiété. Vous êtes, je le sais, conscients de l'ampleur de la tâche à accomplir, du défi que nous avons à relever : Haïti est à genoux, il faut que nous la remettions DEBOUT !

Cependant, il ne s'agit pas de la remettre debout comme elle l'était avant le 12 janvier mais plutôt de bâtir, ensemble, un meilleur Pays, de profiter de ce moment unique pour mettre en place de solides bases pour sa REFONDATION. Le peuple haïtien mérite une économie rutilante, créant de la richesse, créant des emplois stables et durables, croissant, de façon régulière et soutenue, solidement ancrée sur des entreprises performantes, modernes, compétitives, fiscalement et socialement responsables.

Nous voilà à dix jours de la tenue de la Conférence pour la reconstruction d'Haïti qui se tiendra à New York au siège des Nations Unies. Ce sera l'occasion pour nous de redire au monde entier que la reconstruction de notre pays doit avant tout être un effort national, juste reflet de la solidarité démontrée tout de suite après le tremblement de terre par toutes les couches sociales haïtiennes. Oubliant leurs drames personnels, les familles haïtiennes se sont attelées à secourir, avec les moyens du bord, ceux qui étaient prisonniers des décombres, à panser les blessés, à partager leur cour, leur nourriture, leurs vêtements, le peu qui leur restait avec leurs frères et sœurs qui avaient tout perdu lors de cette catastrophe.

Aussi, New York sera l'occasion pour le gouvernement haïtien d'être le porte-parole de toute une nation, unie et solidaire, présentant d'une seule voix sa vision, ses choix et les orientations stratégiques

qu'elle a décidé de suivre pour sa reconstruction. Ce sera aussi le moment de préciser les grands chantiers que nous comptons mettre en place, reflétant les priorités retenues à partir de l'évaluation des dommages et des pertes conduites par les différentes équipes techniques qui se sont déployées sur le terrain.

Notre Vision se résume ainsi:

Nous Refonderons la Nation haïtienne en transformant la catastrophe du 12 janvier 2010 en une opportunité pour qu'Haïti devienne un pays émergent d'ici 2030.

Cette refondation se matérialisera en :

Une société équitable, juste, solidaire et conviviale, vivant en harmonie avec son environnement, sa culture, une société moderne où l'État de droit, la liberté d'association et d'expression et l'aménagement du territoire sont établis,

Une société dotée d'une économie moderne, diversifiée, forte, dynamique, compétitive, ouverte, inclusive, et à large base territoriale,

Une société où l'ensemble des besoins de base de la population sont satisfaits en termes quantitatif et qualitatif,

Une société apprenante dans laquelle l'accès universel à l'éducation de base, la maîtrise des qualifications dérivant d'un système de formation professionnelle pertinent, et la capacité d'innovation scientifique et technique nourrie par un système universitaire moderne et efficace, façonnent le nouveau type de citoyen dont notre pays a besoin pour sa refondation.

Tout ceci, avec l'encadrement d'un État unitaire, fort, responsable, garant de l'application des lois et de l'intérêt des citoyens, fortement déconcentré et décentralisé.

Réaliser cette vision demande que nous, Haïtiens et Haïtiennes, établissions ensemble les principes que nous allons adopter et respecter :

- La reconstruction de notre pays est avant tout un devoir pour chaque Haïtien et chaque Haïtienne, résidant en Haïti ou faisant partie de notre Diaspora ; devoir de participer et d'apporter sa contribution : cette reconstruction doit être avant tout un processus haïtien, inclusif, sans parti pris, sans préférence, sans clientélisme de quelque nature que ce soit ;
- La reconstruction de notre pays sera une réussite si nous travaillons à réduire les clivages qui alimentent les injustices sociales et économiques, à éliminer la méfiance coutumière de l'un envers l'autre : elle doit aboutir à l'élimination des barrières qui paralysent la mise en commun de nos idées et empêchent notre avancement ;

- La reconstruction de notre pays passe et doit passer par une réduction significative de la pression de notre capitale, « la fameuse République de Port-au-Prince », sur le reste du territoire, et ce à tous les points de vue : elle doit s'inscrire dans un rééquilibrage spatial soutenable et durable visant une valorisation de toutes nos potentialités, la recapitalisation de nos ressources humaines et de nos actifs économiques, la remise en état d'un système institutionnel à la mesure des enjeux et défis que nous avons et aurons à relever;
- La reconstruction d'Haïti veillera à mieux définir le rôle de tous les acteurs économiques et sociaux de la société haïtienne, à les organiser pour jouer leur rôle et interagir vers le but commun que décrit notre Vision, dans le cadre d'un dialogue permanent, structuré et organisé d'où émergeront les grandes idées sur lesquelles s'appuieront nos choix d'orientation stratégique de l'Haïti de demain ;
- La reconstruction de notre pays ne peut se faire sans le respect de nos lois et règlements administratifs qui protègent notre liberté individuelle et nos droits de Peuple, mais aussi sans un réexamen attentif et judicieux des lois et règlements obsolètes qui entravent la dynamique d'une gouvernance démocratique efficace.
- La reconstruction de notre pays se fera avec l'appui de tous ceux qui veulent participer à cette entreprise exaltante: elle se fera sous le leadership haïtien, ouvert et prêt à tirer profit des expériences et des compétences de notre diaspora et de l'expertise internationale, organisé pour recevoir l'appui financier bilatéral et multilatéral en donnant toutes les garanties de transparence et de reddition des comptes.

Pour donner vie et réalité à cette Vision de notre nouvelle Haïti, depuis plus de deux mois, des acteurs politiques, intellectuels et économiques du pays se sont mobilisés pour définir, avec l'Etat haïtien, ce que devraient être les voies et moyens à adopter pour la refondation de notre pays.

Aussi, pour assurer une bonne cohérence de nos interventions, le gouvernement, en s'appuyant sur les différentes propositions reçues, a établi le cadre de la reconstruction qui s'articulera autour de quatre (4) grands chantiers :

1. La refondation territoriale, qui passe par l'identification, la planification et la gestion des nouveaux pôles de développement, la stimulation du développement local, la reconstruction des zones affectées, la mise en place des infrastructures économiques nécessaires à la croissance (routes, énergie et communication), la gestion du foncier garantissant la protection de la propriété et facilitant l'avancement des grands projets ;
2. La refondation économique, qui avec la valorisation des secteurs clés, doit viser la modernisation du secteur agricole dans ses composantes offrant un potentiel exportable comme les fruits et tubercules, l'élevage et la pêche avec comme objectif la sécurité alimentaire, le développement d'un secteur de la construction professionnelle, doté des lois et règlements antisismiques et anticycloniques et des structures d'application et de contrôle, la poursuite des activités de l'industrie manufacturière, l'organisation du développement touristique ;

3. La refondation sociale priorisant en tout premier lieu un système éducatif garantissant l'accès à l'école à tous les enfants, offrant une éducation professionnelle et universitaire en adéquation avec l'exigence de modernisation de notre économie, un système de santé assurant une couverture maximum sur tout le territoire, une protection sociale pour les salariés ;
4. La refondation institutionnelle qui immédiatement s'attaquera à la remise en fonctionnement des institutions étatiques en priorisant les fonctions les plus essentielles, la redéfinition de notre cadre légal et réglementaire pour mieux l'adapter à nos besoins, la mise en place de la structure qui aura le mandat de gérer la reconstruction, l'établissement d'une culture de transparence et de reddition de comptes qui rende la corruption impraticable sur notre territoire.

L'atteinte des objectifs à long terme à travers ces 4 grands chantiers que je viens de décrire va passer par l'adoption de décisions et la définition d'actions programmées selon trois grands moments choisis pour la reconstruction : les 6 prochains mois qui couvriront la fin de la période d'urgence, les dix huit mois qui suivront et qui verront la mise en place de toute cette transformation que nous recherchons ensemble pour notre pays, et ce troisième temps que sont les 8, 10, 20, ... années à venir qui verront la concrétisation, l'exécution et la consolidation des acquis de la reconstruction et de la refondation.

Après avoir passé la phase immédiate, l'urgence doit s'atteler à améliorer les conditions d'hébergement des sans-abris, à retourner les élèves à l'école et les étudiants à l'Université et aux centres de formation professionnelle, à préparer la prochaine saison cyclonique de l'été, à poursuivre les efforts pour redonner une normalité à la vie économique notamment en garantissant la stabilité du système financier et l'accès au crédit aux micro, petites et moyennes entreprises, à continuer la réorganisation des structures de l'Etat. Durant cette période, nous devons travailler sur les stratégies et plans de développement des nouveaux pôles que nous avons choisis, poursuivre les actions en faveur de l'équipement des zones d'accueil des populations déplacées par le séisme, mettre en place le processus électoral pour éviter tout vide constitutionnel.

Ce sera aussi la période de préparation des dix-huit mois qui suivront dont parmi les attentes les plus importantes, sont en priorité l'identification de projets déclencheurs pour cette Haïti de demain et la mise en place du cadre d'incitation et d'encadrement à l'investissement privé sur lequel est fondé le choix de croissance économique que nous avons fait. Comme le prévoient les différentes analyses et évaluations, les investissements privés, dans l'économie comme dans le social, vont constituer la colonne vertébrale de la refondation de notre pays. Parmi les engagements pris avec les donateurs, il a été retenu d'accompagner le développement du secteur privé, tout le secteur privé, pour le doter des capacités nécessaires pour remplir ce rôle.

Aussi, est-ce avec joie que j'accueille ces propositions que vient de me remettre le Coordonnateur du Forum Economique du Secteur Privé.

A la rencontre de Santo Domingo, deux enveloppes spécifiques ont été contemplées :

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Forumeconomiquehaiti@gmail.com

- Un appui budgétaire de 350 millions de dollars américains pour finir l'exercice fiscal en cours et combler ainsi le manque à gagner enregistré au niveau des ressources internes à cause des pertes enregistrées par le secteur privé et qui sont estimées à environ 60% du total des dommages évalués;
- Une enveloppe de 3.8 Milliards de dollars nécessaires pour financer les besoins identifiés par le PDNA, pendant les 18 mois à venir, à partir du 1er octobre 2010. Ces besoins ont été priorisés et des propositions sont en cours d'élaboration. Pour aider les donateurs à mieux définir leurs programmes d'appui à Haïti ou de voir les possibilités d'aller au delà de ce qu'ils ont déjà identifié comme champs d'investissement, il sera urgent pendant cette semaine que les équipes techniques du gouvernement et du secteur privé se rencontrent pour identifier les points de convergence et travailler sur les synergies et complémentarités qu'il faut développer pour finaliser la programmation de cette période.

Mesdames et Messieurs du Secteur public et du Secteur privé,

Il est indispensable que nous disposions d'un document final qui intègre les intérêts manifestés par le Secteur privé, ainsi que ceux de tous les autres secteurs et qui nous amène à New York avec un plan unique à proposer aux donateurs.

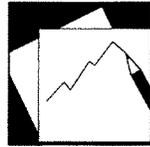
Je vous remercie

Annex 5: List of organizations consulted

In March 2010, more than 150 representatives from the following organizations were consulted as part of the development of the Private Sector Economic Forum Vision and Roadmap for Haiti. In addition, input was sought during the Private Sector Consultation on Reconstruction hosted by the Inter-American Development bank at Indigo Club on March 15, 2010, and again during the Etats Generaux of the Private Sector Economic Forum held at Karibe Convention Center on March 21, 2010.

Organizations consulted in Haiti include:

1. AGACORP
2. Association de Professionnels de Banque (APB)
3. Association des Commerçants du Secteur Informel (ACSI)
4. Association des Industries d'Haiti (ADIH)
5. Association Haïtienne des Architectes et Urbanistes (ASSHAU)
6. Association Maritime Haïtienne (AMARH)
7. Association Nationale des Exportateurs de Mangues (ANEM)
8. Association of Private Hospitals in Haiti (AHPH)
9. Association Touristique d'Haiti (ATH)
10. Banque interaméricaine de développement (BID)
11. Centre pour la Libre Entreprise et la Démocratie (CLED)
12. Chambre d'Agriculture Biologique (CHAAB)
13. Chambre de Commerce et d'Industrie d'Haiti (CCIH)
14. Chambre de Commerce et D'industrie Haïtiano-Canadienne (CCIHC)
15. Chambre Franco-Haïtienne de Commerce et d'Industrie (CFHCI)
16. DIGICEL
17. Development Activities and Services for health (DASH)
18. Fédération Haïtienne des PME's (FHPME)
19. Fondation Nouvelle Haiti (FNH)
20. Forum Economique du Secteur Privé (FESP)
21. Groupe Coles
22. Groupe de Travail sur la Compétitivité (GTC)
23. Haitian-American Chamber of Commerce (AmCham)
24. Jeune Chambre Internationale
25. MINUSTAH, Représentant Spécial du Secrétaire Général des Nations-Unies pour Haïti
26. On The Frontier (OTF)
27. UNIBANK
28. USAID



IMF Working Paper

Growth in the Dominican Republic and Haiti: Why has the Grass Been Greener on One Side of Hispaniola?

Laura Jaramillo and Cemile Sancak

IMF Working Paper

Western Hemisphere Department

**Growth in the Dominican Republic and Haiti:
Why has the Grass Been Greener on One Side of Hispaniola?**Prepared by Laura Jaramillo and Cemile Sancak¹

Authorized for distribution by Andy Wolfe

March 2007

Abstract

The Dominican Republic and Haiti share the island of Hispaniola and are broadly similar in terms of geography and historical institutions, yet their growth performance has diverged remarkably. The countries had the same per capita real GDP in 1960 but, by 2005, the Dominican Republic's per capita real GDP had tripled whereas that of Haiti had halved. Drawing on the growth literature, the paper explains this divergence through a combined approach that includes a panel regression to study growth determinants across a broad group of countries, and a case study framework to better understand the specific policy decisions and external conditions that have shaped economic outcomes in the Dominican Republic and Haiti. The paper finds that initial conditions cannot fully explain the growth divergence, but rather policy decisions have played a central role in the growth trends of the two countries.

This Working Paper should not be reported as representing the views of the IMF.

The views expressed in this Working Paper are those of the author(s) and do not necessarily represent those of the IMF or IMF policy. Working Papers describe research in progress by the author(s) and are published to elicit comments and to further debate.

JEL Classification Numbers: O11, O47, O57

Keywords: Growth, income divergence, Dominican Republic, Haiti

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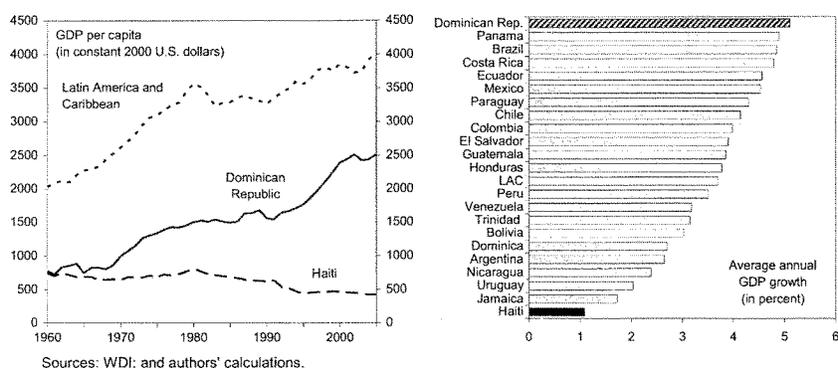
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I. INTRODUCTION

The Dominican Republic and Haiti present a quasi-natural experiment; the two countries share the island of Hispaniola and are broadly similar in terms of geography and historical institutions, yet their growth performance has diverged remarkably since 1960. In 1960, the Dominican Republic and Haiti had the same per capita real GDP at just below US\$800. However, by 2005, the Dominican Republic's per capita real GDP had tripled to about US\$2,500, whereas that of Haiti had halved to US\$430 (Figure 1). Accordingly, the Dominican Republic and Haiti have been at opposite ends of the spectrum within Latin America and the Caribbean (henceforth LAC) in terms of growth rates over the past 45 years, with the Dominican Republic achieving one of the highest average real GDP growth rates at above 5 percent and Haiti the lowest at about 1 percent (Figure 1).

Figure 1. GDP per capita, and real GDP growth rates in Latin America, 1960-2005



What explains this divergence in per capita real GDP of the two countries? The paper seeks to answer this question by examining two main issues: (i) to what extent the divergence is the inevitable result of disparities in initial conditions, and (ii) to what extent it is the result of differences in the policies pursued in each country since 1960. Drawing on the growth literature, the paper addresses these issues through a combined approach that includes a panel regression to study growth determinants across a broad group of countries, and a case study framework to better understand the specific policy decisions and external conditions that have shaped economic outcomes in the Dominican Republic and Haiti. To examine policy decisions, the paper uses growth determinants from the literature and introduces alternative variables of institutional quality and stabilization policies to help better explain the income divergence between the two countries. Furthermore, to facilitate comparisons, Latin America is used as a reference point throughout the paper.

When examining initial conditions, namely geography and historical institutions, we find great similarities between the Dominican Republic and Haiti, implying that initial conditions cannot explain their divergence in per capita real incomes. Moreover, based on the panel

regression and case study, we find that policy decisions since 1960 have played a central role. In particular, the Dominican Republic has consistently outperformed Haiti and the rest of Latin America in terms of structural measures and stabilization policies, while Haiti has been subject to numerous political shocks that have severely affected its growth performance.

The paper is structured as follows. Section II reviews findings in the growth literature on the Dominican Republic and Haiti. Section III examines the initial conditions, in particular geography and historical institutions. Section IV analyzes the policies pursued in the two countries, framing the discussion by an empirical endogenous growth model. Section V summarizes the findings and concludes.

II. LITERATURE REVIEW

Only a few studies have compared the growth performance of the Dominican Republic and Haiti, and these studies have provided mostly qualitative discussions. Among the well-known is the chapter in Jared Diamond's book "Collapse" (2005). Although Diamond focuses on environmental policies, it can be inferred from his arguments that higher population density and lower rainfall have been the main factors behind the more rapid deforestation and loss of soil fertility on the Haitian side of Hispaniola, with adverse consequences for agricultural production and therefore growth performance. Similarly, Lundahl (2001) argues that Haiti is the poorest country in the western hemisphere because of the interplay between population growth and the destruction of arable land. He explains that the increase in the rural labor force has led to an expansion of subsistence food crops to the detriment of export crops, in the context of decreasing international food commodity prices.

Other studies have found that economic performance in the Dominican Republic has been favored by political and macroeconomic stability. Bulmer-Thomas (2001) finds that, for the Caribbean in general, improvements in per capita GDP are linked to higher exports per capita, the quality of institutions, and stability of the macroeconomic framework. The World Bank (2006b) also argues that the Dominican Republic experienced a more enabling environment for private investment than Haiti due to political stability and stable macroeconomic conditions over prolonged periods that allowed it to follow a more diversified and outward oriented growth strategy. In addition, IMF (2001) argues that growth in the Dominican Republic during the 1990s was anchored by capital formation and strong productivity growth, while trade liberalization encouraged private investment and output growth.

III. INITIAL CONDITIONS

We examine two initial conditions that the growth literature highlights as the most likely to influence long-term growth performance: geography and historical institutions. While the absence of national accounts prior to 1960 does not allow us to determine exactly at what point in time the Dominican Republic started growing faster than Haiti, this analysis helps us determine if the divergence started long before 1960.

A. Geography

Geography plays a direct role in shaping a country's growth performance. It determines the quality of natural resources, the productivity of land, the public health environment, and the extent to which a country can become integrated with world markets. We find no substantial differences between the Dominican Republic and Haiti on these grounds, from which we can infer that that geography cannot explain the growth divergence between the two countries.

- Gallup, Sachs, and Mellinger (1998) argue that: (i) tropical regions are hindered in development relative to temperate regions; (ii) coastal regions are strongly favored in development relative to the hinterlands; and (iii) high population density is favorable for economic development in coastal regions with good access to trade. However, these factors do not explain the divergence between the two countries as they have the same location, ocean access, and climate, while Haiti has historically had twice the population density of the Dominican Republic.²
- As explained in the literature review, Diamond (2005) argues that rapid deforestation, caused by lower rainfall and higher population density, has led to lower growth in Haiti compared to the Dominican Republic. However, a 1941 study on rainfall in Hispaniola did not find evidence that Haiti had lower rainfall than the Dominican Republic. Based on data for an average of 11 years, the study reveals that rainfall was comparable in the two countries.³ Likewise, even if lower rainfall had in fact been an issue for Haiti, it did not appear to be an obstacle to agricultural production in the 18th century when Haiti was one of the richest colonies in the French empire.⁴ Moreover, deforestation on the Haitian side can be considered a more recent phenomenon as, even as late as 1960, the amount of arable land in both countries was comparable at about 20 hectares per person.⁵
- Diamond's argument about population density runs contrary to cross-country evidence about the potential benefits of higher population density, such as that found by Gallup et al. (1998) and Klasen and Nestmann (2004) who argue that population density generates the linkages, infrastructure, demand, and effective market size for technological innovations that fuel growth. Figure 2 illustrates the relationship between population density and growth. Between 1960 and 2005, many of the countries with the highest per

² Haiti is about half the size of the Dominican Republic, but has roughly the same population.

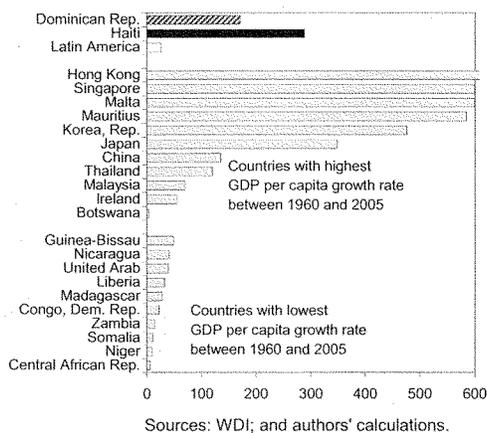
³ See Alpert (1941).

⁴ In the 1780s, Haiti, nicknamed the "Pearl of the Antilles", produced about 40 percent of all the sugar and 60 percent of all the coffee consumed in Europe.

⁵ Looking at GDP growth by sector over the period 1960-2000 reveals that performance of the primary sector did not drive overall growth results in either country. In the Dominican Republic, the primary sector explains about 12.5 percent of the total average growth rate, while the secondary and tertiary sectors explain 32.5 percent and 55 percent respectively. Similarly, in Haiti, the primary sector explains less than 10 percent of the total average growth rate, while the secondary and tertiary sectors explain about 45 percent each.

capita real GDP growth had high population densities—in some cases even higher than in Haiti—while countries with the lowest per capita real GDP growth had low population densities.

Figure 2. Population density, 2000
(people per square kilometer)



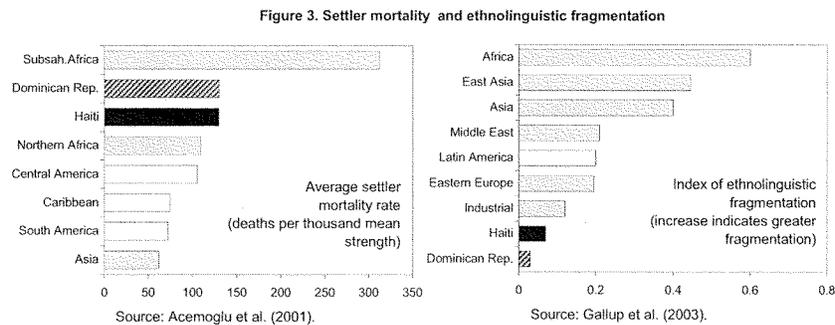
B. Historical institutions

A growing body of literature argues that institutions are important for initiating and sustaining economic growth. While institutions are clearly endogenous and evolve with economic performance, in this section we focus on the influence of historical institutions to understand if economic performance since the 1960s has been driven mainly by historical legacies or rather by more recent policy developments. We find that the historical institutions of the Dominican Republic and Haiti were very similar, implying that this cannot fully explain the growth divergence.⁶

- Acemoglu, Johnson, and Robinson (2001) argue that colonial origin matters for growth. They argue that Europeans were more likely to set up extractive institutions in places where they faced high mortality rates and could not settle, resulting in poor institutions, which have persisted to the present. However, the Dominican Republic and Haiti had the same settler mortality rates as estimated by these authors, therefore it would be expected that both countries had equally extractive institutions (Figure 3).

⁶ Appendix 1 provides a chronology of political events for both the Dominican Republic and Haiti.

- La Porta, et al. (1998) find that countries that are poor, close to the equator, ethnolinguistically heterogeneous, use French or socialist laws, or have high proportions of Catholics or Muslims exhibit inferior government performance. Yet, there are no differences between the Dominican Republic and Haiti on these fronts: both have low ethnolinguistic fragmentation, both use French law, and both have mainly Catholic populations (Figure 3).



- In terms of the impact of the colonial power, the literature does not provide evidence of significant differences between Spanish and French colonial rule. Several studies have used dummy variables for French, British, and Spanish colonies to try to explain growth, corruption, and policy volatility, but have found only the British dummy variable to be significant.⁷
- The quality of institutions was poor in both countries until early in the 20th century—at the time of the U.S. military occupation—with arguably greater political instability in the Dominican Republic. Between independence in 1804 and the U.S. military occupation in 1915, Haiti had 33 heads of state, with an average time in power of 3.4 years. Meanwhile, between independence in 1844 and the U.S. military occupation in 1916, the Dominican Republic had 61 heads of state, with an average time in power of only 1.2 years. Furthermore, although serving U.S. interests, the U.S. military occupation of the island was linked to internal struggles and violence in both countries.⁸ Prior to U.S. occupation in 1916, the assassination in 1911 of president Cáceres in the Dominican Republic led to various revolutions, economic chaos, and a near-collapse of government institutions.

⁷ Acemoglu et al. (2001) add British and French colony dummies to their regression. The French dummy was not significant, implying that French colonies were no different from the omitted group. Treisman (2000) and Sirimaneetham (2006) add French, British, and Spanish colony dummies in their studies on the effect of colonial heritage on corruption and policy volatility. In both papers, only the British dummy was significant.

⁸ U.S. expansion into the Caribbean Basin—at a time when the United States was pursuing the construction of the Panama canal—was supported by the Monroe Doctrine, originally intended to keep European nations out of Latin America, and Theodore Roosevelt's corollary to this doctrine, which stated that the United States had a moral mandate to enforce "proper" behavior among Latin American countries.

Similarly, preceding U.S. intervention in 1915, six different Haitian presidents since 1911 had been killed or forced into exile, with revolutions leading to economic disorder and growing external indebtedness.

In summary, strong similarities in the initial conditions in the Dominican Republic and Haiti indicate that these cannot explain the divergence in real incomes of the two countries since 1960. However, this finding does not imply that all conditions were identical going into the 1960s. In fact, by 1960, Haiti was already trailing the Dominican Republic in some social indicators, such as life expectancy and illiteracy rates.⁹ Nonetheless, we find that these differences are likely to have emerged closer to 1960 and were not inherited from the 19th or early 20th centuries. As mentioned earlier, lack of national accounts prior to 1960 does not allow us to determine the exact point in time when the Dominican Republic started to outpace Haiti, but differences are likely to have started to emerge in part as a result of the policies implemented following the U.S. military occupation. In general terms, the outcomes of U.S. intervention in both countries were akin: order was broadly restored; the countries' budgets were balanced and debt reduced; and infrastructure was expanded, including new roads, telephone connections, port facilities, and public health and education services. However ensuing governments in Haiti practiced only rent-seeking behavior without efforts to maintain public infrastructure and social services, while the Trujillo regime in the Dominican Republic promoted agriculture, industry, and public works. The next section looks at the policies pursued in each country since 1960, when national accounts became available, to shed more light on the factors contributing to the divergence in per capita real GDP.

IV. ANALYSIS OF POLICIES PURSUED

To analyze economic performance and related policies in the Dominican Republic and Haiti since 1960, the paper relies on a combination of approaches, specifically growth accounting, panel regressions, and case studies. These approaches are complementary as growth accounting provides a broad overview of economic performance and resource endowments in Haiti and the Dominican Republic, the panel regressions provide a benchmark to compare the performance of the two countries with an “average economy” facing similar shocks, while the case study allows us to capture the heterogeneity in the conditions and processes that have governed the growth experience in each country.

A. Growth accounting

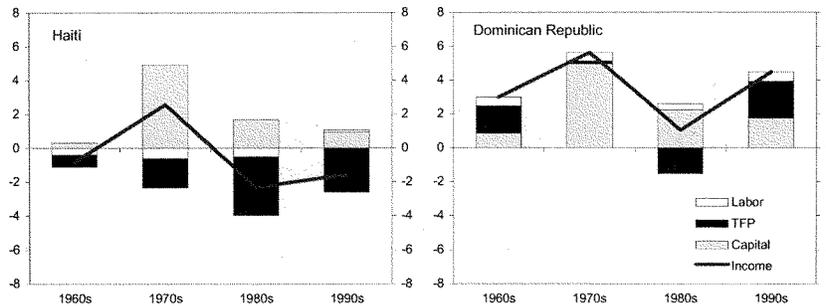
A standard growth accounting exercise shows that total factor productivity (TFP) has been an important factor for both the Dominican Republic and Haiti (Figure 4).¹⁰ In broad terms, the

⁹ In 1960, life expectancy at birth was 44 years in Haiti compared to 54 years in the Dominican Republic. The under 5 five mortality rate per thousand children was 253 in Haiti compared to 149 in the Dominican Republic. The adult illiteracy rate above age 15 (data available for 1970) was 78 percent in Haiti and only 33 percent in the Dominican Republic.

¹⁰ The capital stock data were constructed using aggregate investment figures. We use a perpetual inventory method to compute capital stocks, with a share of capital income in national output of 0.4 (different values do
(continued...)

Dominican Republic had favorable growth trends between 1960 and 2000, largely fueled by productivity gains and capital accumulation. In contrast, economic performance in Haiti has been dismal, with negative TFP in all four decades. Real growth in the 1970s, the only period in which Haiti had positive per capita GDP growth performance, was achieved through strong investment efforts. The empirical endogenous growth model explained below will provide greater insight into the factors that underlie both TFP and capital accumulation.

Figure 4. Contribution to GDP per capita growth (annual average over 10-year periods, in percent)

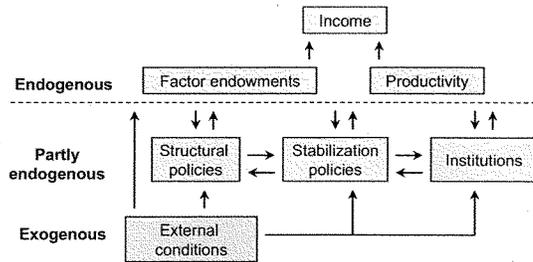


Sources: IFS; WDI; and authors' calculations.

B. Empirical Endogenous Growth Model

The empirical endogenous growth model identifies partly endogenous variables (structural policies, stabilization policies, and institutions) and exogenous variables (external conditions) (Figure 5). Our choice of growth determinants was guided by two criteria: that these variables are widely used in the growth literature and that they capture the diverse aspects of policies and shocks in Haiti and the Dominican Republic (Box 1).

Figure 5. Endogenous growth model



not alter the conclusions). We do not control for capacity utilization or quality of human capital due to data limitations.

Box 1. Literature survey

Below is a brief literature survey of the main reference papers used to guide our choice of explanatory variables.

Stabilization policies. Using regression analysis, Fischer (1993) finds that high inflation, distorted foreign exchange markets, and large budget deficits have a negative effect on economic growth. Inflation reduces growth by reducing investment and productivity growth; large budget deficits also reduce both capital accumulation and productivity growth. Sahay and Goyal (2006) find that on average in Latin America volatility of inflation and devaluation was higher in low growth periods as compared to high growth periods, and fiscal balances were worse and their volatility higher during low growth periods.

Human capital formation. Lucas (1993) finds that the main engine of growth is the accumulation of human capital and the main source of differences in living standards among nations is differences in human capital. Romer (1989) also finds that the growth of total factor productivity depends on the level of human capital, reflecting the idea that more educated and skilled people are more inventive and innovative.

Financial depth. Schumpeter (1934) argues that financial intermediation alters the path of economic progress by affecting the allocation of savings with consequent positive impacts on productivity growth and technological change. King and Levine (1993a, b) find that higher levels of financial development are positively associated with faster rates of economic growth, physical capital accumulation, and economic efficiency improvements.

Trade openness. Miller and Upadhyay (2000) find that trade openness generally benefits total factor productivity by improving the terms of trade, and lowering the real value of the domestic currency. Sachs et al. (1995) find that trade openness fosters growth and Edwards (1997) finds that more open countries have experienced faster productivity growth. Dollar and Kraay (2004) also find that increased trade has encouraged growth and poverty reduction, and has contributed to narrowing the gaps between rich and poor countries.

Political stability. Corbo and Rojas (1993) find that political instability has a highly negative effect on investment rates, by creating an environment of high uncertainty. Barro (1991) sustains that there is a negative relationship between political instability and investment and growth, due to its adverse effects on property rights.

Terms of trade. Findings on the effects of terms of trade shocks are not consistent. Easterly et al. (1993) find that terms of trade shocks play a large role in explaining variance in growth. Perez and Moreno-Brid (1999) find that the terms of trade may not necessarily explain the long-term growth of Central American and Caribbean economies, as terms of trade have been rather stable for these countries, including for the Dominican Republic and Haiti.

Global external conditions. Easterly (2001) finds that worldwide factors such as the increase in international interest rates, the growth slowdown of industrial countries, the rise in the debt burden of developing economies, and the development of skill-based technological innovations explain the marked decrease in developing countries' growth rates in the 1980s and 1990s with respect to the previous two decades.

Based on this framework, a dynamic panel model of per capita real GDP growth is estimated to assess the relative importance of these growth determinants. The reduced-form equation builds on the work by Loayza, Fajnzylber and Calderón (2005), modifying their specification to better explain developments in the Dominican Republic and Haiti, as will be described in detail further below.

Loayza, Fajnzylber, and Calderón (2005)—LFC Model

Loayza, Fajnzylber and Calderón (2005) use the following variation of the standard growth regression:

$$y_{i,t} - y_{i,t-1} = \alpha y_{i,t-1} + \alpha_C (y_{i,t-1} - y_{i,t-1}^T) + \beta' X_{i,t} + \mu_t + \eta_i + \varepsilon_{i,t}$$

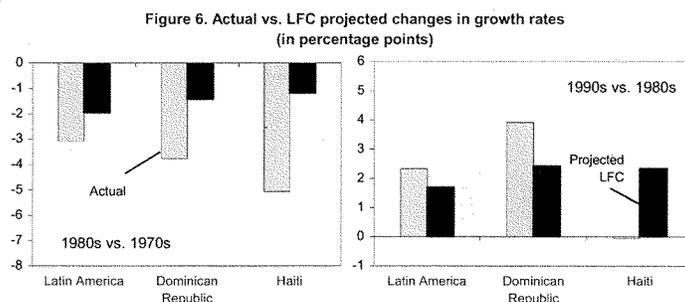
where y is log of output per capita, y^T represents the trend component of output per capita, $y_{i,t-1} - y_{i,t-1}^T$ is the output gap at the start of the period, X is a set of additional variables postulated as growth determinants, μ_t is a period-specific effect, η_i represents unobserved country-specific factors, and ε is the regression residual. The inclusion of the initial output gap as an explanatory variable controls for cyclical output movements in order to differentiate between transitional convergence (initial GDP per capita, $y_{i,t-1}$)—based on the conditional convergence hypothesis—and cyclical reversion to the long-run trend ($y_{i,t-1}^T$). Table 1 describes the growth determinants included in the LFC model, which can be grouped as in the proposed empirical endogenous growth model.¹¹

Table 1. Variables used in the LFC model
Transitional convergence (initial GDP per capita)
Cyclical reversion (initial output gap)
Structural policies
Education (secondary school enrollment)
Financial depth (private domestic credit /GDP)
Government burden (government consumption /GDP)
Public infrastructure (main phone lines per capita)
Trade openness (structure-adjusted trade /GDP)
Stabilization policies
Lack of price stability (inflation rate)
Cyclical volatility (standard deviation of output gap)
Real exchange rate overvaluation (index of real exchange rate overvaluation)
Systemic banking crises (frequency of years under crisis)
Institutions
Governance indicator (International Country Risk Guide- ICRG)
External conditions
Terms of trade shocks (growth rate of terms of trade)
Source: Loayza et al. (2005)

¹¹ See Appendix 2 for details on definitions and sources.

The LFC model is estimated using a system generalized method of moments (GMM) estimator for a sample of 79 countries over the period 1961-1999.¹² The regression analysis is conducted using five-year, ten-year, and thirty-year averages, but for conciseness we will refer only to the ten-year results.

Figure 6 shows that in broad terms, the LFC model does well in explaining the direction of the changes in growth rates in LAC. The results show that the Dominican Republic, Haiti, and LAC all experienced a decline in their growth rates in the 1980s, while economic recovery in the 1990s was stronger in the Dominican Republic than for the LAC average. However, the LFC model does not perform as well in explaining the magnitude of change, especially for Haiti. Therefore, to improve the fit of the model, we propose some modifications to the LFC specification.



Sources: Loayza et al. (2005); and authors' calculations.

Improving the fit of the LFC model

Looking more deeply into the behavior of the different growth determinants for the Dominican Republic, Haiti, and LAC, we identify variables in the LFC model that can be enhanced to improve the fit of the model. In particular, we propose alternative measures for institutional quality and stabilization policies.

Institutional quality

LFC uses an International Country Risk Guide (ICRG) index as a measure of institutional quality that captures the prevalence of law and order, quality of bureaucracy, absence of corruption, and accountability of public officials. However, this variable is not found to have a statistically significant impact on economic growth. This may be the case because the time series is too short, as ICRG data are only available from 1984 onwards, and because the ICRG is a subjective indicator that measures perceptions of change in institutional quality, not the actual change. Furthermore, for the particular case of Haiti, the ICRG indicator does not provide an adequate picture of important political and institutional developments as it

¹² See Appendix 3 for the list of countries included in the panel regression.

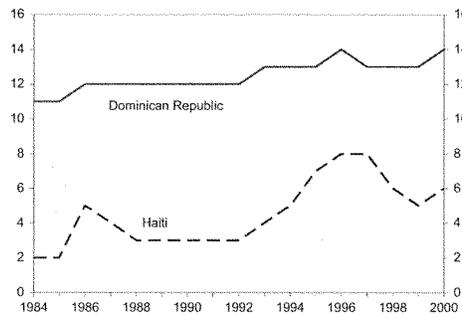
shows improvement in institutional quality during the most politically unstable periods, that is, the mid-1980s and early 1990s (Figure 7).

Another factor—directly linked to institutional quality—that has been found to have a negative impact on growth is political instability (Barro, 1991; and Corbo and Rojas, 1993). We propose using changes in political regime as a proxy for political instability. Information on political regimes is drawn from the Polity IV database, which provides a unified polity scale that ranges from +10 (strongly democratic regime) to -10 (strongly autocratic regime) on an annual basis for all countries between 1800 and 2004.

We measure political instability as the absolute sum of changes in political regime, as determined by the polity scale. That is, when a country moves from a democratic regime to an autocratic regime (or the reverse), the political instability measure will be higher than if a country faces small variations within a democratic regime (or within an autocratic one).

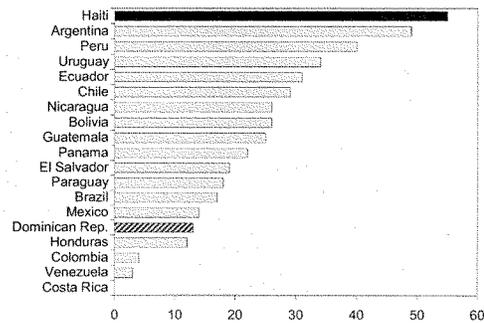
Figure 8 shows the contrast between Haiti and the Dominican Republic in terms of political instability. Haiti has faced much more political instability than the rest of Latin America, with several democratically-elected regimes quickly turned over by coups or elected leaders becoming more authoritarian. On the other end of the spectrum, the Dominican Republic has been among the most stable countries in the region, in particular since 1970 when the Dominican Republic's growth rate began to outpace that of Latin America.¹³

Figure 7. ICRG institutions index (increase indicates better institutions)



Sources: ICRG; and authors' calculations.

Figure 8. Magnitude of regime changes, 1970-2003 (increase indicates more political instability)

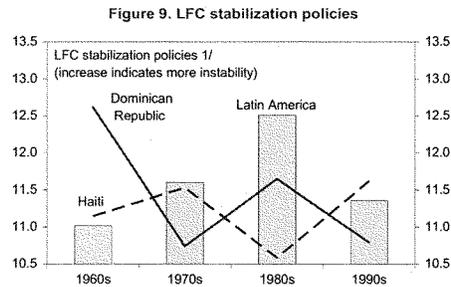


Sources: Polity IV database; and authors' calculations.

¹³ Since 1960, Haiti has experienced numerous regime changes, including following the fraudulent elections of Papa Doc (1961); the death of Papa Doc (1971); the freeing of political prisoners and loosening of control over the press by Baby Doc (1977); the departure of Baby Doc (1986); failed elections and coups d'etat (1988-1991); return of Aristide (1994); the dissolving of Parliament (1999); and irregular elections (2000). Regime changes (continued...)

Macroeconomic stability

We find that the stabilization measures used by LFC have several drawbacks related to measurement difficulties. In particular, a credible estimation of potential output is complex, especially in countries that face structural breaks (through conflict or structural reform), making the output gap difficult to measure. Determining the real exchange rate equilibrium to calculate overvaluation of the exchange rate is also tricky. These issues are evident in the case of Haiti during the 1980s, where continuous poor economic performance resulted in low output gap volatility, implying better stabilization policies according to LFC variables, but clearly contrary to overall developments in the economy (Figure 9).



Sources: Loayza et al. (2005); IFS; and authors' calculations.
1/ Combines inflation, cyclical volatility, and real exchange rate overvaluation for illustrative purposes only. The variables are used independently in the regression analysis.

Alternatively, in order to get an overall picture of the stance of stabilization policies, we propose a measure of macroeconomic instability that combines inflation, the fiscal deficit, exchange rate volatility, and international reserves losses. The need to look at various factors simultaneously to determine the stance of macroeconomic policies has been underscored by Fischer (1993) and Sahay and Goyal (2006). A combined indicator is considered to be more appropriate because any variable taken in isolation provides only partial information. For example, inflation gives a good indicator of the stance of monetary and fiscal policies, but may be biased by price controls. However, price controls would show up as higher fiscal deficits when funds are transferred to price control agencies. Moreover, while price controls might keep inflation down, uncertainty and lack of confidence in financial policies would put pressure on the exchange rate. Exchange rate pressures may not be evident in the context of a fixed exchange rate regime, but the authorities' efforts to maintain foreign exchange stability would show up as changes in international reserve holdings.

More specifically, a macroeconomic instability index (mi) is constructed as the weighted sum of inflation rates and exchange rate volatility, minus reserve accumulation as a percent of base money at the beginning of the period, and minus the fiscal balance as a percent of GDP. Therefore, a higher value for the index indicates more instability. Each variable is weighted by the inverse of its standard deviation. Standardizing the variables ensures that all the components of the index have equal sample volatilities so that movements in the index are

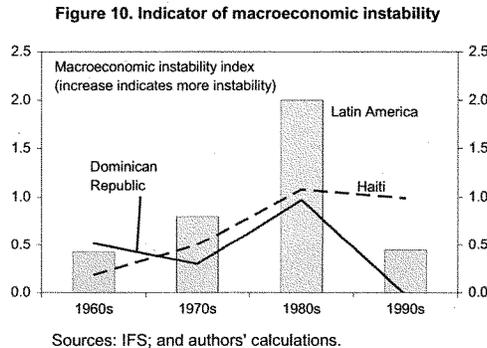
in the Dominican Republic have been few, especially since 1970, and include the death of Trujillo (1961); coup and civil war (1962-63); Balaguer's defeat in the elections (1978); and Balaguer's agreement to cut his term short following rigged elections (1994). See Appendix 1

not solely driven by the most volatile component. While the methodology for constructing the mi index draws from indicators of speculative pressure in the crisis literature, to our knowledge, this particular index has not been used elsewhere.¹⁴ The index is constructed as follows:

$$mi_i = \frac{\ln\left(\frac{cpi_{it}}{cpi_{i,t-1}}\right)}{\sigma_{cpi}} + \frac{\ln\left(\frac{er_{it}}{er_{i,t-1}}\right)}{\sigma_{er}} + \frac{\ln\left(\frac{res_{it} - res_{i,t-1}}{bm_{i,t-1}}\right)}{\sigma_{res}} + \frac{\ln\left(\frac{fbal_{it}}{gdp_{it}}\right)}{\sigma_{fbal}}$$

where mi is the macroeconomic instability index for country i at time t , cpi is the consumer price index, er is the exchange rate of national currency to US dollar, res is the stock of international reserves, bm is base money, $fbal$ is the fiscal balance, gdp is nominal GDP, and σ is the standard deviation of each variable.

Figure 10 illustrates the behavior of the mi index for the Dominican Republic and Haiti. Since the 1970s, the Dominican Republic has outperformed Haiti and Latin America on average, in terms of stabilization policies. Meanwhile, Haiti's performance in terms of stabilization policies was better than that of the region until the 1990s. This was largely the result of a conservative monetary policy, which consisted of a *de facto* currency board arrangement until 1979 and a tight policy stance during the 1980s with high reserve requirements and high real interest rates.¹⁵ Further details on stabilization policies in both countries are provided in the following section.



¹⁴ See Eichengreen et al. (1995), Kaminsky and Reinhart (1999), and Herrera and Garcia (1999). Sensitivity analysis indicated that the panel regression results are largely robust to the choice of weighting scheme.

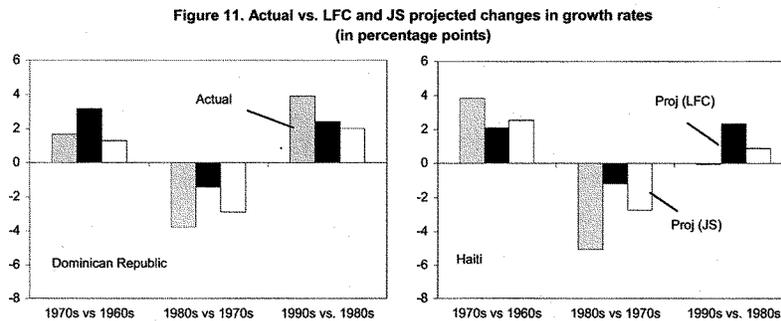
¹⁵ Until 1979, the central bank law stipulated that the amount of currency issued had to be fully covered by foreign reserves in order to preserve the exchange rate parity.

Panel regression

We use dynamic panel analysis to test the significance of the two proposed variables discussed above. We follow the basic approach of LFC, modifying the explanatory variables by: (i) replacing the ICRG index with the regime change variable based on the Polity IV database; and (ii) replacing the four LFC stabilization policy variables (inflation rate, standard deviation of output gap, real exchange rate overvaluation, and systemic banking crises) with the composite macroeconomic instability index (*mi*). We use the same 79 country sample, with five- and ten-year intervals between 1961 and 1999, but discuss only 10-year results for simplicity and conciseness.¹⁶ The panel regression is estimated with a GMM-IV system estimator using lagged levels and first-differences of the variables as instruments, and imposing robust two-step standard errors (Table 2).

C. Growth Determinants

The analysis of changes in growth rates between decades reveals that the model improves the fit for both the Dominican Republic and Haiti, as well as for Latin America (Figure 11). In the case of the Dominican Republic, the model is able to better predict the changes in growth trends in the 1970s and 1980s, though some of the growth boom of 1990s remains unexplained. For Haiti, the model provides a better explanation of developments over the entire period.



¹⁶ Both period intervals yield similar results; the coefficients have identical signs and are broadly of the same order of magnitude; however, the significance of these coefficients is lower for the 10-year estimation largely due to lower degrees of freedom.

Growth determinants	GMM-IV system 5-year periods	GMM-IV system 10-year periods
Transitional convergence (initial GDP per capita, in logs)	-0.0245 [0.023]	-0.0495 [0.089]
Cyclical reversion (initial output gap, in logs)	-0.2273 [0.027]	-0.0167 [0.818]
Structural policies		
Gross secondary school enrollment (in logs)	0.0186 [0.093]	0.0145 [0.483]
Private domestic credit /GDP (in logs)	0.0038 [0.514]	0.0092 [0.118]
Trade /GDP (in logs)	0.0139 [0.139]	0.0101 [0.269]
Government consumption /GDP (in logs)	-0.0208 [0.064]	-0.0031 [0.819]
Main phone lines per capita (in logs)	0.0112 [0.174]	0.0246 [0.002]
Stabilization policies		
Macroeconomic instability index	-0.0024 [0.063]	-0.0021 [0.211]
Institutions		
Polity IV index	-0.0016 [0.004]	-0.0003 [0.620]
External conditions		
Growth rate of terms of trade	0.0197 [0.520]	0.0592 [0.323]
Period shifts		
1966-70	0.0058	
1971-75	0.0038	
1976-80	-0.0010	
1981-85	-0.0227 **	
1986-90	-0.0161	
1991-95	-0.0230 *	
1996-99	-0.0287 **	
1970s		-0.0081
1980s		-0.0288 ***
1990s		-0.0403 **
Intercept	0.0851	0.3010 *
Specification tests (<i>p</i> values)		
Hansen test of overidentifying restrictions	1.000	0.412
First-order serial correlation	0.000	0.065
Second-order serial correlation	0.278	0.159

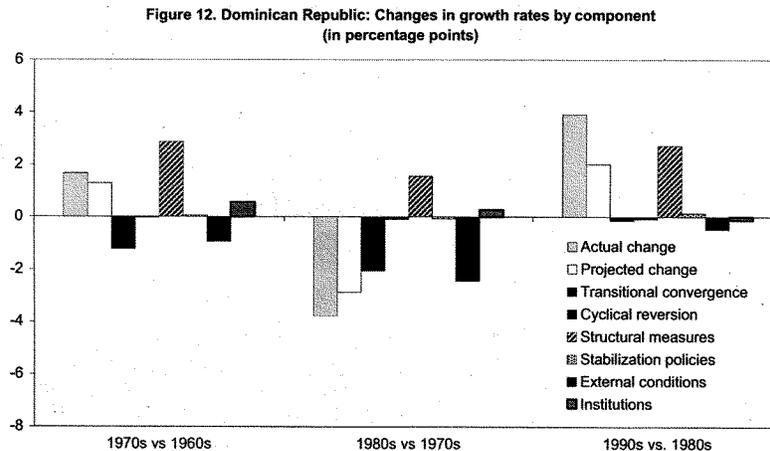
1. *p* values are in brackets. ***, **, and * denote significance at 1 percent, 5 percent, and 10 percent respectively.
2. Significance of coefficients is lower for the estimation with 10-year periods largely due to lower degrees of freedom.
In addition, imposing robust two-step standard errors considerably lowers significance, especially for the estimation for 10-year periods.

Source: Authors' estimation using Arellano-Bond dynamic panel data estimation with robust two-step standard errors.

Based on these results, the following section identifies the main determinants of growth for each period, for each country, in order to provide a flavor of the specific policies being captured by the model. In general, structural policies have been the key determinant of growth in both the Dominican Republic and Haiti, followed by political stability and stabilization policies.

Dominican Republic

During the 1970s, average GDP per capita growth rates in the Dominican Republic increased to just above 5 percent, from close to 3 percent in the 1960s. The improvement in growth rates is explained in most part by progress made on structural measures, in particular education and credit to the private sector, and by enhanced political stability (Figure 12). This progress took place within a framework of broadly prudent fiscal and monetary policies, favored by a strong balance of payments position in the early 1970s.



- Improvements in secondary school enrollment outpaced the average for LAC, which allowed the Dominican Republic to “catch up” to the average enrollment levels of the region. Specifically, the government introduced major curriculum reforms at the primary and secondary levels to make schooling more relevant to work life, resulting in improvements in access to education.
- Although still at lower levels than the LAC average, credit to the private sector as a percent of GDP grew more rapidly in the Dominican Republic than in the region. Commercial bank credit received a boost in the late 1960s when effective reserve requirements were lowered. The new system allowed banks to discharge part of their required reserve obligation by lending a certain minimum of their reserve liabilities to “productive” sectors. By end-1973, all banks were under the new system.

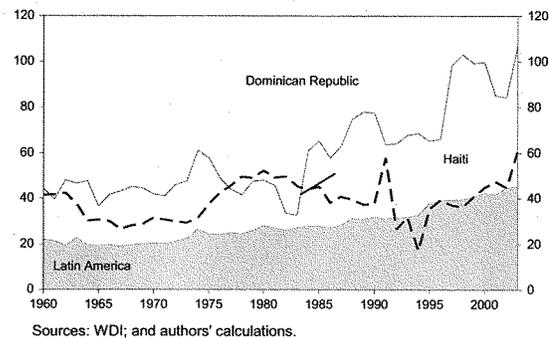
- Furthermore, Joaquin Balaguer, the president of the country for most of the 1970s, provided political stability following the years of political unrest in the mid-1960s.

As with most of LAC, the 1980s were years of economic turmoil. Average growth of GDP per capita in the Dominican Republic was basically flat. The sharp contraction in growth rates during this decade can be explained by unfavorable external conditions and by the deterioration of stabilization policies. This took place despite considerable improvements in structural measures, particularly trade openness.

- In the 1980s, large fiscal deficits contributed to monetary expansion and inflationary pressures, which in turn exacerbated the distortions created by extensive price controls. The inconsistency between exchange rate policy and other financial policies generated overvaluations of the peso that resulted in sizeable depreciations, and the central bank steadily lost official reserves.

- The increase in trade openness is explained by improvements in exports arising from greater trade benefits to the U.S. market, as the Caribbean Basin Initiative came into effect in 1983, and by the approval of the 1983 Free Trade Zone Law that provided incentives for export industries, including 20-year tax exemptions (Figure 13).

Figure 13. Trade openness
(in percent of GDP)



During the 1990s the Dominican Republic recovered the GDP per capita growth rates of the 1970s, just under 5 ½ percent of GDP. The primary contributors to growth were structural measures, and in particular important improvements in trade and infrastructure, supported by the implementation of corresponding stabilization policies.

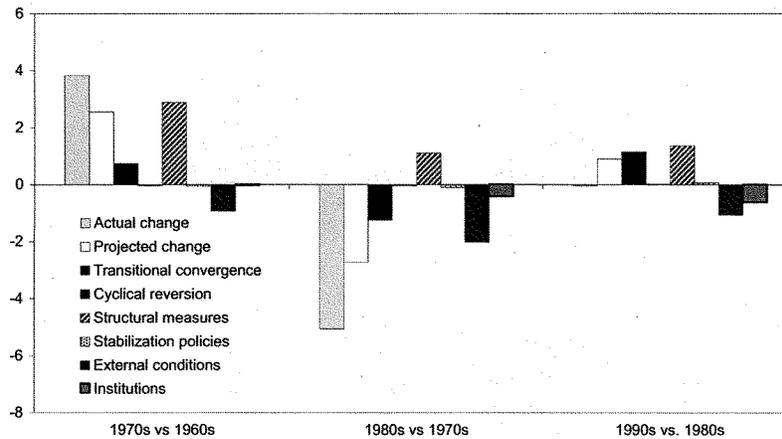
- In the 1990s, the Dominican Republic embarked on a comprehensive economic program that included liberalization of the exchange rate, prices, and interest rates, as well as fiscal consolidation. This led to a sharp reduction in inflation, foreign exchange rate stability, and declining public external debt.
- Trade openness jumped in the mid-1990s, as a result of the elimination in 1993 of export restrictions (such as export licensing and minimum export prices for agricultural products) and all export taxes, as well as the reduction in tariffs. In addition, a new FDI law was approved in 1996 that facilitated operations of foreign firms, reduced sectoral restrictions and liberalized repatriation of capital and utilities. This led to a substantial increase in FDI, in particular in the tourism sector.

- During this period, infrastructure in the Dominican Republic grew at a faster rate than the average for the region. Beyond the expansion of telephone lines (the measure used in the regression), there was a general improvement in infrastructure in the 1990s, with the expansion in electricity generation and construction in tourism resort areas (including an international airport and roads).

Haiti

The 1970s was the only decade when the change in GDP per capita growth rates was positive (Figure 14). From negative growth rates in the 1960s, growth in the 1970s averaged just above 2.5 percent. The main contributors to growth were structural measures, in particular, trade openness, education, and credit to the private sector.

Figure 14. Haiti: Changes in growth rates by component (in percentage points)



- In 1971, Haiti freed exchange transactions for all current payments and capital investment, while eliminating restrictive practices and controls (including the exchange surrender requirement for exports and delays in remittances for service payments). This favored the export environment and the assembly sector in Haiti began to grow.
- In the 1970s, the Haitian government began to reform its educational system, mostly at the primary level. With the 1978 education reform, the government unified educational administration and introduced the use of Haitian Creole as the language of instruction in the first four grades. In addition, school enrollment was boosted by school nutrition programs. Notwithstanding the improvement, Haiti's secondary school enrollment continued to be lower than the average for LAC.
- Credit to the private sector was encouraged by a 1972 reform that gave banks permission to extend medium-term credit to industrial and export sectors.

The economic contraction in Haiti during the 1980s was stronger than in LAC, at an average of -2.4 percent in Haiti compared to -0.9 percent for the region. While external conditions were adverse, growth performance was affected by increasing political instability and a weakening of stabilization policies.

- Political turmoil increased in the early 1980s due to growing discontent with the Duvalier regime. His departure in 1986 was followed by successive failed elections and coups d'état. Between 1986 and 1990, there were six different heads of state.
- In the 1980s, government revenues began to underperform while the government pursued heavy outlays on construction works, defense, and loss-making public enterprises. Extrabudgetary spending continued to expand in the face of civil disturbances, as external concessional assistance declined. The public sector increasingly relied on central bank financing that led to official reserve losses and external payments arrears emerged, putting rising pressures on the exchange rate and domestic prices.

GDP per capita growth in the 1990s continued the same negative trend as in the 1980s, with an average growth rate of -2.4 percent. Growth performance over the period was dominated by a major shock to the economy. Following the coup d'état against Jean Bertrand Aristide, the U.S. and the OAS imposed a trade embargo in 1991, aggravated by a U.N.-sponsored oil embargo in 1993. While the embargo is captured to some extent by the political instability and trade openness variables, the broader effects of this shock are not well represented in the model.

- Political events in the 1990s in Haiti included several failed presidential and parliamentary elections, coups d'état, as well as a U.S.-led military intervention. During this period, there were nine different heads of state.
- In the years prior to the embargo, trade openness was about 40 percent of GDP. During the embargo years, average trade openness fell to an average of 25 percent of GDP, and has been recovering slowly. The assembly sector was severely affected. At the end of the 1980s, Haiti assembled a wide variety of light manufactures, such as baseballs and electrical switches, together with apparel products. With the embargo, the assembly industry collapsed, and following the lifting of sanctions in 1994, only the garment sector reestablished itself. Employment in the assembly sector fell from 46,000 in the late 1980s to just 5,000 in 1995.

V. CONCLUSIONS

This paper tries to explain why the Dominican Republic and Haiti have experienced a striking divergence in growth performance despite their broad similarities in terms of geography and historical institutions. We examine both the initial conditions and the different policies pursued in each country since 1960 in order to identify the factors that may have contributed to this divergence.

When examining initial conditions, namely geography and historical institutions, we find strong similarities between the Dominican Republic and Haiti, implying that initial conditions cannot fully explain the divergence in real incomes of the two countries. While, by 1960, Haiti was already trailing the Dominican Republic in some social indicators, differences were not inherited from the historical legacies of the 19th or early 20th centuries. Although lack of national accounts prior to 1960 does not allow us to determine the exact point in time when the Dominican Republic started to outpace Haiti, disparities are likely to have started to emerge in part as a result of the policies implemented in each country following the U.S. military occupation.

The panel regression and case study approach allow us to conclude that policy decisions since 1960 have played a central role in the growth divergence between Haiti and the Dominican Republic. In general, structural policies have been the key determinant of growth in both the Dominican Republic and Haiti, followed by political stability and stabilization policies. In particular, we find that the Dominican Republic has consistently outperformed Haiti and LAC in terms of implementation of structural measures, stabilization policies, as well as political stability. Meanwhile, Haiti has lagged the region in implementing structural policies, while being subject to numerous political shocks that have severely affected its growth performance.

While this paper identifies the kind of policies linked to growth performance in both countries of Hispaniola, future work would be needed to understand why decision makers in the Dominican Republic chose and were able to implement superior policies to those in Haiti. Further research could also provide insight into the sources of the persistent political turmoil in Haiti, as well as to the circumstances that allowed the Dominican Republic to surmount the political instability of the 19th and early 20th centuries.

APPENDICES

I. Chronology of political events**Dominican Republic**

- 1821-1843 In 1821, the DR gains independence from Spain but is soon after invaded by Haitian leader Jean-Pierre Boyer, uniting the island for the next 22 years.
- 1844 On February 27, 1844 (Dominican Independence Day), Juan Pablo Duarte executes a bloodless coup in Santo Domingo. During the next 16 days all of the eastern towns announce their decision to separate from Haiti.
- 1844-1865 General Pedro Santana Familias and Buenaventura Baez Mendez dominate the political scene. In 1861 Santana agrees to the Dominican Republic's annexation by Spain. However, on March 3, 1865 the annexation is annulled and Spain withdraws its soldiers.
- 1865-1878 Political turmoil and corrupt governments dominate this period.
- 1879-1882 Two dominant parties—the Azules and the Rojos—emerge. For the next three years the Azules control the government.
- 1882-1899 General Ulises Heureaux comes to power. He retains power through fraudulent elections and army control. Heureaux borrows vast sums from U.S. investors at high interest rates. He also replaces the National Bank with the U.S. owned and operated San Domingo Improvement Company. Heureaux is assassinated in July 1899.
- 1900-1905 Soon after Heureaux's death, the Dominican Republic could not repay its debts. The U.S. government intervenes by taking control of the customs houses in 1905, guaranteeing repayment of all loans.
- 1905-1911 Ramon Caceres is elected president. He sets up the railway, improves the postal service, installs telegraph lines, rebuilds docks, funds new schools, and constructs highways. He increases export taxes on Dominican sugar to pay for public improvements, which angers plantation owners. Caceres is shot dead in 1911.
- 1911-1916 Various revolutions follow Caceres' death. U.S. president Woodrow Wilson, concerned about U.S. national security, threatens to send marines if elections are not held. Juan Isidro Jimenez is elected president but is soon impeached before Congress. The U.S. offers support, and though Jimenez only requests weapons, the marines are sent in.
- 1916-1924 The Dominican Republic comes under U.S. control for 8 years. In particular, the Americans control the budget. The American troops leave by 1924, as Woodrow Wilson is no longer in power, World War I is over, and the U.S. is considerably less concerned with the Dominican Republic's strategic importance.
- 1924-1930 President Horacio Vasquez has a progressive government, building roads creating access to the countryside, schools, and irrigation and sanitation services.
- 1930-1961 Rafael Leonidas Trujillo, chief of the National Police (which later became the National Army), forces Vasquez to resign. Trujillo holds an election for which he is the sole candidate. Trujillo rules the Dominican Republic with an iron fist from 1930 to 1947 and indirectly thereafter until his assassination in 1961.

- Trujillo uses his government to amass a personal fortune by establishing monopolies that his family controlled. Trujillo carries out programs of public works and construction. He also presses for industrial progress, and scores of factories are opened. Agricultural production improves and the economy flourishes.
- 1962-1966 President Joaquin Balaguer is in office at the time of Trujillo's assassination. Elections are organized. In 1962 Juan Bosch Gaviño is elected, but is toppled in a military coup in 1963. Bosch and a group of supporters who called themselves the Constitutionals take to the streets and seize the National Palace. To reinstate order, 24,000 U.S. soldiers were ordered to the Dominican Republic until new elections were held in 1966.
- 1966-1978 Balaguer defeats Bosch in national elections. Balaguer purges the military and uses the National Police to curtail non-military opposition. His reelections in 1970 and 1974 are mostly accomplished through intimidation.
- The economy expands rapidly, benefiting from favorable world prices for sugar. However, by the late 1970s, plunging sugar prices and rising oil costs bring the Dominican economy to a standstill.
- 1978- 1986 Silvestre Antonio Guzman defeats Balaguer in the elections. He leads a corrupt government. Public-works programs are brought to a halt and the administration borrows heavily from abroad. Guzman's popularity diminishes rapidly. Salvador Jorge Blanco is elected in 1982. Soon after comes the debt crisis and the Dominican Republic enters an IMF agreement. Macroeconomic and structural measures are put in place and slowly the economy picks up and inflation is brought under control.
- 1986-1996 Balaguer is reelected for a fifth term. He runs his government like a dictatorship, intimidating political rivals. He reverses the adjustment program under Blanco, leading to a sharp depreciation of the peso and annual inflation of 60 percent. By 1990, 900,000 Dominicans move to New York, fleeing the economic situation.
- Balaguer rigs the 1990 and 1994 elections. However, in 1994 the military threatens to intervene. Balaguer agrees to cut his last term short and hold elections 18 months later.
- 1996-2000 Leonel Fernandez wins the presidency. He presides over strong economic growth, privatization, and structural reform.
- 2000-2004 Hipolito Mejia becomes president. The events of September 11, 2001 and the ensuing slowdown in the world economy—take a toll on economic growth.
- In 2003, failures of 3 large banks due to accounting malpractices and mismanagement lead to a banking crisis.
- 2004-2006 Fernandez is reelected in 2004. The economy recovers at high growth rates.

Haiti

- 1804 The ex-slaves of the French colony of Saint-Domingue declare independence after defeating the French army at Vertière. They name their new nation Haiti, which means “mountainous” in the language of its original Arawak inhabitants.
- 1804-1820 Jean Jacques Dessalines proclaims himself emperor, but is assassinated in 1806. His death led to civil war between the south under General Pétion and the north under Henry Christophe.
- 1820-1843 Faced with a rebellion by his own army, Christophe commits suicide, paving the way for Jean-Pierre Boyer to reunify the country and become President of the entire republic in 1820. President Boyer invades Santo Domingo following its declaration of independence from Spain, controlling the entire island until 1844.
- In 1938, France recognizes Haitian independence in exchange for an indemnity of 150 million francs to compensate for the losses of French planters during the 1803 revolution.
- In 1843 Boyer flees the country following a revolution to overthrow him from the presidency.
- 1844-1915 Haiti sees 22 heads of state, most of whom leave office by violent means. The U.S. and other slaveholding states do not recognize Haiti until 1862.
- 1915-1934 Concerned about German economic influence in the country and continued political instability, the U.S. military occupies Haiti after the last in a series of short-lived presidents is torn to pieces by a mob. The U.S. marines establish control over customs-houses and port authorities, and create the Haitian National Guard.
- 1934-1956 Once the Americans leave, political instability resumes, with regime changes taking place through military coups.
- In 1937, thousands of Haitians living near the border of the Dominican Republic are massacred by Dominican soldiers under the orders of President Trujillo.
- 1957-1971 Francois Duvalier (Papa Doc) is elected president in the country’s first universal suffrage election. Relected in fraudulent elections in 1961, he declares himself president for life in 1964 and, until his death, holds on to power as a ruthless dictator with the help of a paramilitary force known as Tontons Macoutes.
- 1971-1986 Jean-Claude Duvalier (Baby Doc) becomes the new president for life after his father’s death in 1971.
- After relatively favorable economic performance in the 1970s, the macroeconomic situation deteriorates sharply in the early 1980s, affected by the recession in the U.S. and economic mismanagement. Social discontent culminates in public protests and violence, and Duvalier flees to France in 1986.
- 1986-1994 Starting in 1986 there are several brief attempts at civilian democracy, each terminated by a military coup.
- In September 1991, Jean-Bertrand Aristide, a popular priest elected in 1990, is forced to flee the country only nine months after taking office. The United States and the Organization of American States respond with a trade embargo, and in 1993 a UN-sponsored oil embargo is imposed. In September 1994, Aristide is reinstalled in office with the help of a U.S.-led military intervention.

- 1995-1996 Aristide disbands the army. Aristide supporters win parliamentary elections. As according to the constitution Aristide cannot serve a consecutive second term, he is succeeded by a close ally, René Préval.
- 1997-1999 Following a period of political deadlock, Préval dissolves parliament and rules by decree.
- 2000-2003 Aristide is reelected president, but the international community criticizes irregularities during the parliamentary elections. Political stalemate with the opposition leads to the freezing of foreign aid.
- 2004-2005 Amid deteriorating economic conditions, growing dissatisfaction with the government culminates in an armed rebellion. President Aristide resigns in February 2004 and leaves the country. A transition government is formed to lead the country to elections and an interim multinational force arrives.
- 2006 Elections are held in February 2006, and René Préval is reelected president.

II. Variable definitions and sources

Symbol	Variable	Source
Variables used in LFC		
Real GDP per capita	1985 PPP adjusted U.S. dollars (in logs)	Penn World Tables
Transitional convergence	Initial GDP per capita (in logs)	
Cyclical reversion	Initial output gap The difference between the log of actual GDP and the log of trend GDP at the beginning of the period. Trend growth is determined using a Baxter-King filter.	
Education	Gross secondary school enrollment (in logs) The gross enrollment ratio is defined as the total enrollment, regardless of age, expressed as a percentage of the official school-age population for a given level. Gross enrollment ratio can be over 100% due to the inclusion of over-aged and under-aged students.	UNESCO and Loayza et al. (2005)
Financial depth	Private domestic credit/GDP (in logs) Ratio to GDP of the stock of claims on the private sector by deposit money banks and other financial institutions.	International Financial Statistics (IFS)
Government burden	Government consumption /GDP (in logs)	IFS
Public infrastructure	Main phone lines per capita (in logs) The number of telephone mainlines per 1,000 people.	World Development Indicators (WDI)
Trade openness	The residual of a regression of the log of the ratio of exports and imports to GDP, on the logs of area and population, a dummy for oil-exporting countries, and a dummy for landlocked countries.	Authors' estimates based on IFS and WDI data
Terms of trade	Change in terms of trade Log difference of the terms of trade. Terms of trade is estimated as customary.	World Economic Outlook (WEO)

Symbol	Variable	Source
Alternative measures		
Political instability	Change in political regime The absolute sum of changes in political regime, as determined by the Polity IV polity scale that ranges from +10 (strongly democratic regime) to -10 (strongly autocratic regime).	Authors' estimates using Polity IV database.
MI	Macroeconomic instability index Weighted sum of inflation rates and exchange rate volatility, minus reserve accumulation as a percent of base money at the beginning of the period, and minus the fiscal balance as a percent of GDP. Each variable is weighted by the inverse of its standard deviation.	Authors' estimates based on IFS data
Inflation rate	Annual percent change in the consumer price index (in logs)	Authors' estimates based on IFS data
Exchange rate volatility	Annual percentage change of the foreign exchange rate (in logs)	Authors' estimates based on IFS data
International reserve accumulation	Annual change in net international reserves as a percent of base money at the beginning of the period (in logs)	Authors' estimates based on IFS data
Fiscal balance	Government fiscal balance /GDP (in logs)	Authors' estimates based on IFS data

III. List of countries included in the panel regression

Algeria	Kenya
Argentina	Korea, Republic
Australia	Madagascar
Austria	Malawi
Bangladesh	Malaysia
Belgium	Mexico
Bolivia	Morocco
Botswana	Netherlands
Brazil	Nicaragua
Burkina Faso	Niger
Canada	Nigeria
Chile	Norway
Colombia	Pakistan
Congo, Democratic Republic	Panama
Congo, Republic	Papua New Guinea
Costa Rica	Paraguay
Cote d'Ivoire	Peru
Denmark	Philippines
Dominican Republic	Portugal
Ecuador	Senegal
Egypt, Arab Republic	Sierra Leone
El Salvador	South Africa
Finland	Spain
France	Sri Lanka
Gambia	Sweden
Ghana	Switzerland
Greece	Syria, Arab Republic
Guatemala	Thailand
Haiti	Togo
Honduras	Trinidad and Tobago
Iceland	Tunisia
India	Turkey
Indonesia	Uganda
Iran, Islamic Republic	United Kingdom
Ireland	United States
Israel	Uruguay
Italy	Venezuela
Jamaica	Zambia
Japan	Zimbabwe
Jordan	

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**Testimony for House Financial Services Committee, Subcommittee on
International Monetary Policy and Trade**

“Promoting Small and Micro Enterprise in Haiti”

Simon Winter, SVP Development, TechnoServe Inc
April 28, 2010

Mr. Chairman and Members of the Sub-Committee: Thank you for the opportunity to discuss creating economic recovery in Haiti through private enterprise.

In this testimony, I will provide evidence that will show that the promotion of small growing businesses and a culture of entrepreneurship can make a vital contribution to putting Haiti on the path to recovery and growth. Improving the policy and infrastructure to facilitate the establishment and growth of a vibrant and dynamic Haitian private sector will be insufficient without a complementary set of interventions targeting the fledgling and would-be entrepreneurs themselves. Haiti’s history lacks a strong and vibrant small business sector; it has been dominated by a handful of multinational businesses and a small local elite. Without direct intervention to promote economic plurality at the grass roots of the economy, development efforts will fail to alter the structure of the business sector and restrain the potential for new broader sources of growth to emerge. At the same time, we have evidence from our work elsewhere that suggests Haiti does not have to wait for the macro policy and infrastructure environment to improve before seeing benefits from such grass roots efforts.

TechnoServe is a US 501(c)3 non-profit committed to breaking the cycle of poverty in the developing world by empowering people there to build small and medium scale businesses. Our focus on building these businesses stems from three core beliefs, grounded in forty-two years of on-the-ground activities in Central America, South America, Africa and India:

- 1) The best way to reduce poverty is to foster equitable economic growth.
- 2) Economic growth stems from entrepreneurial people’s success in understanding markets and market opportunities, and in starting and growing competitive and profitable businesses that generate employment and wealth.
- 3) Well-designed and well-executed targeted assistance programs, even in inhospitable business environments, can catalyze the development of successful businesses and industries.

TechnoServe has been working in Haiti since July 2009 as part of a consortium implementing a multi-year U.S. Agency for International Development-funded project to improve access to finance for local small and medium businesses. This project, Haiti Integrated Financing for Value Chain & Entrepreneurship (HIFIVE), is meant to complement other USAID-funded



programs in Haiti, with a focus on rural areas and high-potential value chains (such as coffee, cocoa, mango, tourism and handicrafts). It is USAID/Haiti's next phase in a sequenced strategy to further develop the country's financial services sector to promote employment generation, to improve livelihoods, and to boost the economy. TechnoServe's role is to identify promising local businesses, analyze their financial or business needs, facilitate negotiations with financial institutions and business service providers and monitor the results.

This work was just beginning when the earthquake struck. It is far too early for us to be drawing conclusions or sharing results. However, we do have enough of a sense already that approaches we have used elsewhere are applicable to Haiti. We believe these can lead to the growth of small businesses and key economic sectors in Haiti that will create jobs and open up new marketing opportunities for local producers, leading to increasing incomes and opportunities for Haitians, especially the poor.

Our recommendations are to include two key types of interrelated programs in any new reconstruction, recovery and development programming for Haiti. First, Haiti needs a much strengthened culture of entrepreneurship – which can be enhanced through the use of the types of entrepreneurship programs that TechnoServe has implemented successfully across many countries. Second, Haiti will benefit from sectoral strengthening programs also along the lines of those implemented elsewhere with positive socio-economic impact by TechnoServe.

While Haiti may be the poorest country in the Western hemisphere, there are many countries in other regions of the world where TechnoServe has worked that have similar characteristics. The World Bank's ongoing Doing Business project currently ranks Haiti as #151 out of the 183 listed countries in the relative ease of doing business there, a composite of ten major factors (<http://www.doingbusiness.org/EconomyRankings>). Examples of TechnoServe's work can inform what is possible and potentially impactful in Haiti. I'll present examples of our work in Uganda, currently ranked 112, Tanzania, ranked 131, and Mozambique, ranked 135.

Following the examples, interwoven with their applicability to the Haitian context, I touch on reasons for optimism – reasons to believe it can be different this time.

Strengthening the culture of entrepreneurship

In Tanzania, with support from Google.org, TechnoServe has been implementing a program to identify and train up-and-coming small entrepreneurs based on the framework of a business plan competition. Over more than 30 iterations in over a dozen countries since 2002, TechnoServe has refined this approach to SME development as an effective way not only to support promising entrepreneurs and assist them to build growing businesses, but also to help build an entrepreneurial culture in countries where it is lacking, and furthermore develop a broader understanding and appreciation of the role of entrepreneurs in economic development. We are currently in the early stages of one such competition in Haiti.



In Tanzania the local organizing committee – a critical component of the approach -- included experienced local business leaders. Experience also comes from the use of volunteer competition judges and mentors, who include established entrepreneurs (who can be powerful role models), venture capitalists, bankers, private investors, university professors, technical experts, and other professionals from Tanzania’s private sector. All judging was anonymous, both for the judges and for the participants.

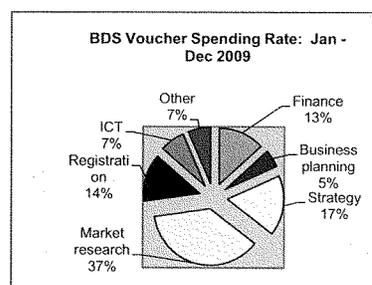
In late 2008, 550 entrepreneurs responded to the program publicity around this initiative, Tanzania’s first national business plan competition, and submitted business concepts to the competition. Of these, 356 entrepreneurs were invited to two days of training, offered in multiple venues, to help them further develop and better present their business ideas. The submissions that emerged were assessed by the volunteer judges.

Based on this, 110 entrepreneurs, 20% of the original applicants, were invited to participate in an intensive comprehensive training course in business planning and operations, offered over a couple of months. They were partnered with experienced independent consultants for mentoring and assistance to develop full business plans. More rounds of judging culminated in a competitive round of personal presentations by the finalists to select the top prize winners.

But in fact there are many winners...

When we first piloted this approach in Central America many of the judges, often banks loan officers, struggled to assess these anonymous business plans. They were accustomed to judging the merits of a business loan request based primarily on the family name of the applicant. The notion of real business plan analysis was rather novel. But, with the orientation and training they received as part of the overall competition approach, they became capable and enthusiastic supporters of an analytic merit-based approach.

In Tanzania, the Minister of Industry, Trade and Marketing participated in awarding the top-20 finalists a total of \$130,000 in seed capital awards. The top 80 received a total of \$400,000 in vouchers for follow-on business development services BDS. By the end of the year almost half those funds had been disbursed for approved services being used by 52 of the entrepreneurs (see split in use in the graphic to the right). While the eventual success of these businesses is yet to be determined – the uptake of the vouchers firmly demonstrates the stimulus to enterprise development that such an intervention can provide.



And the program doesn’t end there. It continues by building an alumni network for mutual support and to help in the continuing effort to build networks that promote the culture of



entrepreneurship, cultivate and support opportunities for other entrepreneurs, and break down residual 'old boy' barriers.

More details on this program in Tanzania and related work can be found at <http://www.believe-begin-become.com/Tanzania/index.asp>

Do these competitions generate the promised impact? The evidence to date is very encouraging. A recent quantitatively robust study of 13 TechnoServe competitions in Central America from 2002-2009, using analytical techniques developed by Harvard economists, interviewed 590 participating and non-participating entrepreneurs, and demonstrated that participants in the training phases dramatically out-performed their peers, generating:

- 250% the two-year sales growth
- 250% more jobs
- 300% more capital invested.

The analyzed competitions generated \$3.70 in client business sales over three years for every program dollar spent and one full-time job per \$700 spent.

In our current entrepreneurship efforts, in addition to the business plan competitions, we are using a range of additional interventions – all of which we believe would be relevant to Haiti:

- Using a screening test for entrepreneurial ability developed in part on the basis of our work by the Harvard University's Entrepreneurial Finance Lab. This tool uses personal histories and characteristics to enable the competitions to focus on the highest potential candidates.
- Supporting entrepreneurs with access to the most critical resource they require – finance. The so-called "missing middle" in finance for small growing enterprises requires entrepreneurs to have more than a good business plan – they need assistance to develop a strong application to financiers, put in place sound financial management, formalize their business and have a well defined market with a strong competitive value proposition.
- Remittances can be leveraged to finance entrepreneurial activities – either directly or through financial intermediaries.
- In addition, the entrepreneurs need financial institutions and investors available with a keen interest in the small business sector and suitable products on offer.

We are convinced based on the early indications from our Haiti competition that this approach can be highly impactful in Haiti too. We had received 99 completed applications by the February deadline, of which 50 applications were submitted AFTER the January earthquake. Of these, just over half were in the agricultural sector broadly defined, and the rest were spread across areas including cultural industries, healthcare, recycling, energy and IT.

We believe there is significant opportunity to expand the competition, its reach and its impact from these early beginnings. A program of direct support and network building would be developed, including a series of adapted business plan competitions, supporting both start-up entrepreneurs and paving the way for current entrepreneurs to reach their potential. We



would work with local institutions to implement the tools mentioned above to drive the creation of an entrepreneurship support platform in Haiti. The program will build capacity among existing local institutions to house the platform and continue supporting entrepreneurs. In addition, the entrepreneur alumni of the program will become a key element in creating a confident voice to represent their interests.

We propose four basic components for an expanded Haitian entrepreneurship program:

- Mini-business plan competitions in each of the priority sectors to identify and train a broad class of entrepreneurs
- A national business plan competition to support and elevate the most promising entrepreneurs
- Facilitation of access to finance for the most promising entrepreneurs. SMEs are currently seen as too risky. To overcome this requires partnering with leading financial institutions that want to change, training their staff, implementing improved practices and smartly brokering deals with the best entrepreneurs
- Facilitation of an efficient and service-oriented national entrepreneurship platform, including a clearing house for interested investors and supporters to meet and support the entrepreneurs on a sustainable ongoing basis.

Strengthening key economic sectors

To ensure that Haiti's high-potential sectors receive the support and attention they need to become the engines of economic recovery and growth, it will not be enough however to stimulate entrepreneurship and hope that some good entrepreneurs arise in each such sector. TechnoServe has significant experience of focusing on priority opportunity sectors and developing integrated programs to unlock growth in those sectors – powered by entrepreneurial people establishing and growing enterprises.

In Uganda, *matooke* (a kind of cooking banana) is the most important food staple. It is

produced by more than 2.5 million small farmers. The nation's annual crop, virtually all consumed domestically, has a market value well over \$300 million. But *matooke* farmers' income opportunities have been constrained by high transport costs, poor product handling and poor market coordination, among other factors. Such conditions pertain to many crops in Haiti today.

With initial support from the Rockefeller Foundation, and now from AGRA (Alliance for a Green Revolution in Africa – a joint initiative of the Rockefeller foundation and

Ugandan farmers are faced with agricultural markets that are characterized by multiple intermediaries between farm gate and consumers. Lack of transparency in market transactions, collusion at all levels of trade, limited access to reliable, independent and useful market information, limited access to input supply services, limited access to markets for output— all combine to make farming unprofitable and unattractive for most smallholder farmers with little hope of escaping a poverty trap. As a result of perpetually low incomes and no opportunity to invest in their crops and in their land, soil fertility, already perilously low, declines still further to the point of exhaustion. Poor to begin with, many farmers face abandonment of their lands to little more than scrub agriculture. The challenge, therefore, is to improve the terms on which the rural poor engage in markets, and to increase their participation and gain in a more profitable value chain.

Much the same could be said about small-scale Haitian farmers.



the Bill & Melinda Gates Foundation), TechnoServe has been working with the Uganda President's Initiative on Poverty Alleviation to make this industry more efficient and beneficial to the rural poor. The project's key objectives are to:

- Expand market opportunities for 25,000 smallholder farmers primarily involved in *matooke* production
- Build the capacity of farmers' organizations and other stakeholders that provide services and/or market access to smallholder *matooke* farmers
- Assist the farmers to move into dairy to diversify their income sources and support soil fertility enhancement.

And we are well on our way. In less than four years, starting in January 2005, we organized some 10,400 farmers and helped them negotiate and complete some \$3 million in sales of bananas. Now in its third and final phase the project's key objectives relate largely to sustainability, along with further growth.

Mozambique is ranked 172 out of 182 in the UNDP's 2009 Human Development Index, while Haiti is ranked 149. Indicative of its general condition, Mozambique's national literacy rate is estimated as below 50%, far exceeded by all its neighbors (CIA Factbooks).

Mozambique's Independence in 1975 was followed by 17 years of civil war. An estimated one million people died. The economy was devastated. And in the three years after the fighting ended in 1992, more than 1.7 million refugees poured back across the borders from neighboring states.

Cashew: While at the beginning of the war the nation was the world's leading exporter of processed cashew kernels, accounting for some third of global production and trade, a generation later the entire industry was largely moribund. The nation's share of the world cashew market had fallen to less than 5%.

In 2001, in partnership with a visionary local entrepreneur, Antonio Miranda, and with technical assistance funded via a USAID project, TechnoServe set out to reverse the slide and rebuild the industry. It was clear that along with the raw cashew nuts still being exported, Mozambique was losing a major opportunity. Together we designed and piloted a model processing plant. It was a labor intensive model, intended to generate the rural jobs so desperately needed. When it first opened, in a rural community in Nampula in Northern Mozambique, a thousand people applied for the first 70 jobs created.

We used the successful pilot plant as a laboratory and a training ground – to build processing efficiency and attract other entrepreneurs into the business. Many were interested and ready to invest. In 2004, we helped the seven leading entrepreneurs create a services company, and a brand, to reach the scale and quality control needed for efficient export operations.

By 2008, as we exited support for the industry, some 5,000 jobs had been created, about half held by women. From 785 metric tons (MT) of nuts processed in 2002, in 2008 24,000 MT were processed, some 40% of the total crop. The factories operating that year earned an average



net profit of just over 10%, on sales of US\$ 13 million. In January 2009, detailed analysis found that since 2001, the aggregate positive impact of the renewed cashew industry had been \$11.5 million. In 2008 this included some \$1.6 million in factory worker wages and an estimated increase in the raw nut farmgate price received by many tens of thousands of small-scale producers of \$38 / MT.

Poultry: Like cashew, Mozambique's domestic poultry industry collapsed after Independence. Economic liberalization of the 1980s opened possibilities. While these were largely captured by Brazilian imports, several domestic producers persevered. But the 2004 outbreak of Avian Influenza in South Africa, the source of most day-old chicks for Mozambican commercial producers, precipitated a crisis. In 2005 alone, chicken imports surged 221%. In supermarkets, foreign chicken was being sold for 23% less than its domestic counterpart, despite the shipping costs of ~\$200 per ton, and tariffs ranging between \$300 and \$800 per ton.

Our research, supported by USAID funding, found that most foreign poultry was, in reality, being imported at or near the end of its shelf life. It was Brazilian but was coming indirectly, via Dubai, after sitting in freezers for a year or more, and much of it was entering the country without paying the import tariffs or VAT. TechnoServe produced an in-depth report detailing the industry's challenges and opportunities, and drafted an industry strategy. The USDA provided a grant to enable us to take it forward.

As a starting place, we convened a meeting of industry leaders. The first meetings were difficult, but the initial mutual distrust among the industry leaders eventually gave way to points of agreement, and then broader consensus. In March 2007 the national poultry association A.M.A. (Associação Moçambicana de Avicultores) was formed. Officers were elected, and TechnoServe assisted, serving as their secretariat.

In June 2007, a nationwide marketing campaign was launched to promote a newly adopted brand for national chicken. The radio and TV advertisements eventually spread to 21 cities, far more than the target of eight. The campaign became so successful that its jingle became popular as a local cell phone ringtone.

In 2004 2 out of every 3 of the 21 million commercially produced broilers sold in Mozambique came from Brazil. Since 2005, the domestic industry has doubled in value from \$37.9 million to \$80.7 million, and imports now make up only a quarter of commercial chicken sold. More than 1,200 poultry jobs have been created.

To achieve this TechnoServe worked with all interested poultry agri-businesses to help them test and develop outgrower models of production, to enable small-scale producers to benefit in the expanding demand for domestic poultry. More than 2,500 small farmers were trained and began participating in outgrower production operations, with increases in household income of 200% to 1000%. In the feed grains sector thousands of small-scale soy and maize farmers benefitted from growth in that sector's revenue from \$15mm to \$60mm.



With the national poultry association well-established, TechnoServe is now turning its attention to further develop the feed industry, a critical cost component for poultry. We are pleased to have as partners in this new effort Cargill and a range of local production agribusinesses, along with the USDA and the Bill & Melinda Gates Foundation. It is through the expanded domestic production of soybeans that additional tens of thousands of small farmers will be able to benefit from the growing poultry industry.

And now we are taking the lessons we have learned through sectoral programs in coffee, cashew, cocoa, and dairy to a much larger scale. We are running programs to reach between 150,000 and 200,000 farmers in each of these cases, across several African countries.

Haitian Mangoes: It was based on these and the establishment of a similar program to boost the mango and passion fruit sectors in East Africa in 2009, that Coca-Cola selected TechnoServe to be their implementing partner for the recently announced Haiti Hope project. This five-year project seeks to double the income of 25,000 Haitian mango farmers, and establish the local institutions and infrastructure to support the ongoing growth and competitiveness of this sector. Apart from a cash injection of \$3.5m from the Coca-Cola company (much of it based on the profits from US sales of juice products, such as the recently launched Odwalla Haiti Hope Mango Lime-Aid™), the project is expecting to receive \$3m in support from the Multilateral Investment Fund of the Inter-American Development Bank and potentially other development partners.

TechnoServe has a team in Haiti designing a program to help Haitian mango farmers grow their crops more productively and efficiently; organize the supply chain around farmer-owned business hubs to help them access markets sustainably, and improve post harvest practices and logistics; train the farmers to produce additional crops to boost their incomes; support Haitian entrepreneurs to establish local value-adding processing and logistics enterprises; and undertake research and development into improved mango varieties and industrial practices.

We believe that the Haiti Hope project can become a role model for sectoral revitalization that can contribute to the long-term development of Haiti. Indeed, we would propose to use our experience to launch and implement such growth strategies in other sectors with strong potential.

Reasons to be cheerful

I believe that out of the recent crisis there is a moment of discontinuity that will allow the US Government and other donors and philanthropists, as well as private sector investors to create a new beginning for Haiti if programs to be launched can be based on the following principles:

1. **Build on prior achievements and existing assets** – not all prior efforts have been wasteful or negative. In the mango sector for example, there are already farmers using improved agricultural practices, some well functioning cooperatives, some established collection center infrastructure, a handful of Haitian exporters that are working well



alongside the USDA to get 10,000 tons per year of their Francisque mangoes to the US markets, and some local organizations with training skills and capacity.

2. **Learn lessons from prior work** – efforts to develop any sector need to:
 - a. Be market-led, comprehensive and based on overcoming informational constraints
 - b. Build individual and organizational capacities across each sector of focus
 - c. Promote local ownership and competitive business building
 - d. Run for a minimum of five years
 - e. Act at an appropriate scale – micro-enterprises rarely scale to access international markets.
3. **Foster a new attitude** – the involvement of international business partners is a game changer; bringing in the best international skills and experiences helps to raise the performance bar and expectations; insisting on local leadership and ownership reduces the risk of ongoing aid dependence; and taking advantage of the current crisis to foster a climate of collaboration can potentially overcome rivalries of old.

This is not easy work. But it is important. And it is doable. It requires the application of rigorous business analytics to understand the drivers of - and path to - competitiveness, a market-led approach, hands-on interventions, and most importantly a focus on specific businesses and people making money, to ensure their businesses are commercially viable and sustainable.

Thank you, Mr. Chairman, for this opportunity to speak to you. As you deem useful, I would be pleased to follow up with you, the Committee members or any of your staff.

Respectfully,
Simon Winter